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# RURAL PARTNERSHIPS ACT OF 1989

JULY 11 (legislative day, JANUARY 3), 1989.—Ordered to be printed

Mr. LEAHY, from the Committee on Agriculture, Nutrition, and Forestry, submitted the following

## REPORT

together with

## ADDITIONAL VIEWS

[To accompany S. 1036]

The Committee on Agriculture, Nutrition, and Forestry, to which was referred the bill (S. 1036) to improve the economic, community, and educational well-being of rural America, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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### MAJOR PROVISIONS OF THE BILL

"The Rural Partnerships Act of 1989," S. 1036, is designed to address two major financial problems in rural America: (1) lack of access to capital for small businesses and (2) rural infrastructure needs for telecommunications and water and sewer systems. It is focused on bringing rural America into the 21st century on an



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equal basis with urban America so there won't be two Americas—one urban, surging ahead, the other rural, lagging behind.

### THE RURAL BUSINESS INVESTMENT FUND

A series of barriers plague business development in rural America. S. 1036 establishes a Rural Business Investment Fund to comprehensively address these obstacles to job creation.

The first barrier is that many of the creative ideas and talents of rural men and women are not fully realized because they lack experience and technical expertise.

A second is that although rural banks are knowledgeable about real estate and agricultural loans, they may be less able to determine the prospects for success of other business projects. Therefore, they are reluctant or incapable of financing these businesses and cannot provide credit for any portion of the loan package that is not secured with collateral.

A third barrier is that there is no followup or ongoing technical assistance to make sure that businesses get off to a profitable start and stay on a profitable track.

Existing Federal programs have not sufficiently met the needs. Of the several hundred Small Business Investment Companies established under SBA regulations, less than seven are in rural counties.[1]

The Rural Business Investment Fund tackles the obstacles to business investment directly and effectively by creating and supporting a financing package, and by providing an alternative source of technical support and expertise to the prospective business. The Fund also stimulates the participation of private banks in rural financing by leveraging Federal dollars from the Fund with a match by banks and other financial institutions.

There are more than 100 revolving funds now operating all over the country. The Committee is confident that the Rural Business Investment Fund will enhance the role of current revolving funds and help establish new ones.

### HOW THE FUND WORKS

A recent example of a successful project, which involves Coastal Enterprise, Inc. (CEI) of Wiscasset, Maine, illustrates how the Fund will work. Last year two people wanted to start Village Woodworking, a hardwood furniture workshop, in a rural Maine community. The individuals involved were short on equity capital and were unable to obtain a working capital loan from the bank because such a loan could not be secured. CEI stepped in with a $25,000 guarantee on the necessary $50,000 working capital loan. A local bank was willing to lend $105,000 to the enterprise based on certain collateral. The private/public leverage on the package was 6 to 1. Since that time the owners have hired 12 more employees, 5 of whom formerly were low-income persons.

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[1] SBIC's can provide loans and capital investment to assist small (fewer than 500 employees) businesses. The minimum $1,000,000 capital requirement often presents a major problem in terms of establishing them in rural areas, especially in counties with low per capita income.

### RURAL CAPITAL ACCESS PROGRAM

Sections 110 through 118 establish the Rural Capital Access Program (RCAP). Under the program, the Secretary of Agriculture will establish and maintain a reserve fund to protect participating banks from potential losses associated with loans made under the program. This allows the banks to make loans that are somewhat riskier than conventional loans. In effect, RCAP serves as a catalyst for private lending in which the bank exercises its own credit judgement, but with greater flexibility for risk-taking.

Under the program, the borrower makes a premium payment (1.5 to 3.5 percent of the loan amount). The bank matches that payment and RCAP matches the combined total of the two payments (between 3 and 7 percent). Thus, the reserve for any loan is between 6 and 14 percent of the loan amount. This reserve fund then exists for banks to tap when there is a default on one of their economic development loans.

The reserve fund is earmarked for each bank so that every institution has its own reserve fund to draw upon if a loan defaults. If no default occurs, the funds stay in the reserve. The earmarked reserve allows a bank to be more aggressive in its loanmaking. However, if a bank suffers losses in excess of the amount in the reserve, the bank would be at risk for that loss. Under the program, State entities or private institutions would administer the program at the State level. The Committee encourages States to voluntarily contribute funds to help borrowers and lenders make their premium payments.

### TELECOMMUNICATIONS

Rural areas are, by definition, remote. This legislation provides funding for three types of local institutions that are in need of state-of-the-art technology: (1) schools, (2) hospitals and (3) small businesses. Every rural school child, every rural patient, and every rural business person deserves the chance to receive the same medical care, learn, prosper, and grow on an equal basis with their counterparts in urban America.

This section would enhance the ability of the Rural Electrification Administration (REA) to lend to rural local telephone companies to improve telecommunications access.

*Education link.*—Education in rural areas falls behind urban areas. S. 1036 would provide funding through REA to expand star schools programs to serve rural counties. Funds will be used to provide access to communications technology and programming by rural schools for education and job training.

*Health link.*—Many rural hospitals are threatened with closing down, and many rural residents must travel far for specialized care. This health link program would provide funding through REA to establish communications links between rural hospitals and teaching hospitals to improve medical data and information transmission.

*Business link.*—S. 1036 would provide funding through USDA to establish communications links for marketing and other business development improvements for business centers in rural areas.

### WATER AND SEWER NEEDS

Upgrading rural water and sewer systems to meet health and safety standards imposed by the Clean Water and Safe Drinking Water Acts may be one of the greatest challenges of this century. The cost of this effort could be as high, as $40 billion.[2] The two major sources of Federal funding—the Farmers Home Administration in the Department of Agriculture and the EPA—jointly provided $600 million in loans and grants in 1989. At that rate, it would take 66 years to pay for needed improvements.

This legislation addresses rural needs in four ways:

First, the authorization for water and sewer grants would be increased $230 million over 5 years.

Second, the banks for cooperatives of the Farm Credit System would be authorized to originate water and sewer market rate loans.

Third, a new $40 million fund would be established in USDA for rural electric cooperatives to obtain loans to finance sewer and water systems. Finally, $45 million would be authorized to provide grants to communities without adequate water supplies due to drought.

The Committee intends that section 602, "Emergency Community Water Assistance Program," should not be interpreted by the Secretary to require that an applicant apply for a Farmers Home Administration loan as a condition or as a factor in the consideration of the applicant's request for a grant under section 602.

### RURAL ELECTRIC COOPERATIVES

In virtually every part of rural America, rural electric cooperatives are present, providing essential services, technical expertise and financing for basic utility services.

*Focus on rural development efforts.*—A new Assistant Administrator within REA will be created to promote and assist with economic development efforts by REA borrowers.

*Rural business incubator fund.*—S. 1036 will create additional funding to be used by the Administrator to promote the creation of business incubators—physical facilities in which startup businesses share facilities, support staff, computer equipment, janitorial services, utility costs, or other overhead, and can receive technical assistance, financial advice, business planning services or other support by the REA staff. REA borrowers have already invested in many business incubators.

### COORDINATION OF FEDERAL, STATE, AND LOCAL GOVERNMENTS

S. 1036 encourages improved coordination between all levels of government in futhering the needs of rural America. First of all, State and local governments are eligible to apply for, and run, revolving loan funds established under the legislation. States can receive up to $3.75 million each over 5 years, while local govern-

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[2] The Environmental Protection Agency (EPA) estimates that $83.5 billion is needed to meet national sewer needs. Assuming rural needs are one-third of that amount, the rural sewer needs would cost $27.5 billion. There are presently no cost estimates from EPA or the Department of Agriculture on the cost of rural water needs. An estimate of $12.5 billion for rural drinking water needs is a conservative estimate, resulting in a $40 billion total cost.

ments and other nonprofit entities can receive up to $2.25 million each over 5 years.

In addition, ever applicant for revolving funds must notify State[3] and local governments of their applications and consult with each level of government to make sure that their revolving fund strategy fits with State and local development strategies. Prior to approving water and sewer loans to rural electric cooperatives, the Secretary must take into account the views of local communities and governments on such applications.

### U.S. DEPARTMENT OF AGRICULTURE COORDINATION AND EXTENSION SERVICE

There are many agencies and programs within USDA which address rural development. This provision would instruct USDA to conduct a study on better ways to coordinate the rural development activities of its agencies. It will also provide that USDA inform communities about the availability of Federal rural development assistance.

The Extension Service can provide valuable economic development assistance to rural areas in support of new business creation, advanced telecommunications, business management, computer operations and technical assistance. S. 1036 offers States or counties the opportunity to hire specialists for their Extension Service, with the Federal Government covering 60 percent of the salary.

### DATA COLLECTION IN RURAL AMERICA

Currently, little or no information is available through the Federal Government on the subcounty level to accurately described the conditions in rural areas, such as unemployment, income, or labor concentration. S. 1036 provides funds to expand data collection efforts of the Bureau of the Census to achieve statistically significant data on rural America. It also requires the Secretary to conduct a study in rural areas to assess needs, and the assistance available to address these needs, for rural development in low-income and distressed rural areas.

### NATIONAL RURAL INFORMATION CENTER CLEARINGHOUSE

S. 1036 provides funding for a National Rural Information Center Clearinghouse within the National Agricultural Library to collect, chronicle, and distribute information to any industry, State, local or Federal agency, or other organization about Federal, State or local programs assisting rural America.

### RURAL DEVELOPMENT ASSISTANCE INFORMATION, GRANTS AND LOANS

*Training and technical assistance.*—S. 1036 establishes a grant program to provide technical assistance to develop and support institutions, resources, and leadership in rural communities. Grants may be available for public or nonprofit organizations, including but not limited to, States, counties, community development orga-

[3] Executive Order 12372 provides that states must be notified about every federal grant application, among other requirements.

nizations, other local government units, and economic development districts.

S. 1036 requires the Secretary to study economically distressed rural areas to evaluate the needs for, and development potential of, projects that increase employment and improve economic growth. S. 1036 would also established a grant program at USDA for capacity building and technical assistance to encourage development efforts in rurral areas.

The Secretary is authorized to provide expedited loans to small rural communities to correct emergency conditions or situations needing urgent attention. These loan applications must be acted upon within 30 days.

### FORESTRY DEPENDENT COMMUNITIES

The timber and energy sectors of the economy were hurt badly by the recession of the early 1980s, and have been slow to recover. Many timber firms are often the largest or the only employer in the area, and are still feeling the effects of the recession. Consequently, the rural areas these firms are located in have suffered severe and long-lasting economic damage.

In addition, many of the recently submitted national forest plans call for significant reductions in timber harvests, grazing levels, and rates of energy and mineral extraction in the coming decade. The reductions planned are further threatening the economic stability and viability of many communities dependent upon these national forest resources.

S. 1036 creates an explicit role for the USDA Forest Service to promote community stability for resource dependent areas. It does so by broadening the purposes of a Forest Service controlled trust fund so the agency can provide assistance to communities to diversify their local economies, thereby reducing their dependency upon national forest resources.

Currently, funds to provide economic diversification grants and loans are obtained from import duties on plywood and semimanufactured wood products. The bill increases, subject to appropriations, the amount that the Secretary of the Treasury will transfer to the Reforestation Trust Fund each year from $30 million to $40 million, and requires that the $10 million annual increase be directed to economic diversification assistance.

### HISTORIC PRESERVATION REQUIREMENTS

Many rural residents are concerned that business development will destroy the characteristics of rural America that are unique and special. S. 1036 requires the Secretary of the Interior to establish certain regulations so that Federal projects authorized under this Act do not interfere with the preservation of historic properties and historical and archeological data.

### AGRICULTURALLY DEPENDENT COMMUNITIES

Many rural communities depend upon agricultural production as their economic base. Both local farmers and consumers benefit when farm commodities are marketed where they are grown and processed. Consumers benefit from the quality of the produce and

farmers benefit from the support and involvement of their local communities.

Suitable uses of grants under section 401, "Local Technical Assistance Grants" would include identifying and analyzing business opportunities for growing, processing, and marketing agricultural commodities and their products, including those not commercially marketed in the United States, and identifying, analyzing, and assisting in planning for business opportunities involving growing and processing agricultural commodities for marketing in local areas where such commodities or their products are not produced in commercial quantities.

The Committee further intends that, during the process of evaluating applications, operators of revolving funds established by this Act should take into account the potential economic benefits of agricultural processing, where appropriate, and should place a priority upon the approval of qualified business proposals that are based upon the production of value-added products.

## Background and Justification

> Rural America is in trouble. In the face of national economic prosperity during the 1980s, the rural economy has stagnated. Millions have faced the loss of jobs and farms. Millions more have fled to the cities. And still more millions who were able to stay employed have endured income levels too low to pull them out of poverty.
>
> —Economic Research Service, USDA.[4]

Rural areas are home to one quarter of the Nation's population, and provide essential goods and services to the entire economy. However, in the last few years, it has become clear that economic progress is not taking place in rural areas at the same rate as in urban centers. In an era of increased pressure for America to become more productive, we must ensure that all parts of the country are working at maximum efficiency.

By virtually every measure, rural America is poorer than the Nation as a whole. For example, rural median family income is over 25 percent lower than metropolitan area median family income. Rural unemployment is significantly higher than that of metropolitan areas. Rural poverty rates are 35 percent higher than metropolitan area rates.[5]

A lack of services and poor job opportunities drives thousands of rural citizens of working age to the cities. Rural counties lost over 1.4 million residents in the most recent 2-year period for which data is available. Thirteen States faced employment growth half that of the national average between 1982–86. These States contain 27 percent of the Nation's non-metro population.

A recent Economic Research Service, U.S. Department of Agriculture, report to Congress, Rural Economic Development in the 1980's, concludes that the "most salient condition of rural America * * * is its economic disadvantage in comparison with urban

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[4] "Rural Areas in the 1980s: Prologue to the 21st Century," presented December, 1988, Louisville, Kentucky, by J. Norman Reid.

[5] "Rural Areas in the 1980s," p. 2–5.

areas." A major cause of this disadvantage: "the vulnerability of small and undiversified rural places to cycles in some basic rural industries, especially agriculture and natural resources * * *" [6]

President Bush pointed out in the Presidential election campaign that, "America's economic recovery will not be complete until rural America's economic recovery is complete." He strongly supported diversifying our rural economy. Secretary of Agriculture Yeutter, at his confirmation hearing before the Committee, also confirmed the need for rural America to become more economically diverse.

The lack of business diversity in rural areas has made those areas more vulnerable during economic downturns. During these periods, incomes fall, jobs are lost, people move away, and needed public investments are not made. During cyclic recoveries, the less economically diverse areas do not rebound as vigorously.[7]

Agriculture is no longer the dominate employer in rural America. Nearly 80 percent of the farm population left farming between 1940 and 1980, one of the largest voluntary migrations in history.[8] While fewer than 20 percent of nonmetropolitan counties now rely on agriculture as their primary source of income and employment, virtually all rural counties remain relatively specialized in terms of economic activity.

## RURAL CREDIT NEEDS

However, rural America's ability to become more diverse is impaired. Studies show that persons attempting to begin businesses in rural areas often have trouble raising debt and equity capital from banks and other financial institutions.[9] The issue for these firms is less the cost of funds than access to those funds.

Beginning and small businesses, which unfortunately have the most difficulty in raising capital, can be major sources of economic growth. "Smaller firms, those with fewer than 20 employees, have been the most significant contributors to net job generation in the United States since the early 1970's. In recent years, the net job performance of small firms has far exceeded that of large firms." [10]

New independent firms accounted for 87 percent of the net new job growth in nonmetro areas, and in the South they accounted for

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[6] "Rural Economic Development in the 1980's: Prospects for the Future," Economic Research Service, USDA, at page 203. That report to Congress is referred to as "ERS" in these footnotes.

[7] IRS, p. 3–6; and "Rural Areas in the 1980s: Prologue to the 21st Century."

[8] Moreover, "[e]mployment in production agriculture on farms and in the agricultural service sector has declined nationally to 4 percent [of the national population], and is only 13 perent in nonmetropolitan areas." ERS p. 77.

[9] *See* "Community Reinvestment Act: Its Role in Local Economic Development," Congressional Research Service (CRS), (88–732 E) 1988; "Financing Business and Economic Development," CRS, (88–598 E) 1988; "Rural Development Perspectives," ERS, February 1988; "Risk Capital and Rural Development," presented at a Joint Economic Committee Symposium, September 29, 1988, by Peter S. Fisher, University of Iowa; Council of State Policy and Planning Agencies (CSPA) reports on "Enterprise Creation in Rural Iowa" and "Enterprise Creation in North Dakota;" "Factors Influencing the Performance of U.S. Economic Development Administration Sponsored Revolving Loan Funds," report prepared for U.S. Dept. of Commerce, August 1987, Mt. Auburn Associates.

[10] "Economic Development for Rural Revitalization: A Handbook," Iowa State University, 1987. Also see the CSPA studies referred to in n. 9; "New Businesses, Entrepreneurship, and Rural Development," National Governors Association, 1988; "Entrepreneurship as a Community Development Strategy for the Rural South," ERS, USDA, reprinted in "The Rural South in Crisis," L. Beaulieu.

all of the new growth.[11] It was found that stimulating new business creation, rather than attempts to recruit existing businesses from elsewhere, can improve rural America across-the-board.[12]

This problem of raising start up capital may be attributable to several factors: the poor relative financial condition of local rural residents wanting to start "home-grown" businesses; the relatively low amount needed (thus comparatively high transaction costs); the lack of projected profitability for first year of operations; the need for much longer term loans (about double the length of the average bank commercial or industrial loan); unwillingness of banks to be a subordinated creditor; or the lack of collateral.[13]

A recent Economic Research Service report on the savings and loan crisis highlighted the large number of financial institution failures in rural areas. This could have significant adverse effects on credit availability in those areas.

The Committee found that stimulating lending by financial institutions to higher risk (new or smaller), businesses in depressed rural areas (areas with income below the statewide median income) would improve access to much-needed capital for new and expanding businesses. Revolving loan funds administered by State agencies, local governments, regional councils, towns, or nonprofit private community development corporations could be started with Federal seed money. The Federal money would be leveraged with private funds. Each investment would be made in conjunction with banks or other financial institutions in worthy businesses that had trouble getting credit elsewhere.

These local revolving funds could participate in business ventures (by making loans or taking equity positions) with a subordinated interest—the bulk of each investment would be made by banks or other investors. The fund could absorb initial losses, up to its investment share, prior to any losses by banks—which should greatly encourage commercial banks to provide credit to companies that might otherwise have been denied loans.

Each fund would make loans to small businesses (fewer than 100 employees) which need capital often in amounts too small to be financed through usual financial intermediaries. Also, the risks of larger loans could be shared by having the local revolving fund "package" the loan with several rural banks.

This approach should work well since, with minimal Federal investment, bank lending takes place that would not have otherwise occurred.[14] Since banks have a major presence in rural America their participation in helping diversify rural America is critical.

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[11] "Entrepreneurship as a Community Development Strategy for the Rural South," J. Norman Reid, USDA/ERS.

[12] Moreover, strategies to recruit large factories often represent zero-sum games, one area wins and the rest lose—there is no net increase in employment or business activity for the Nation. "Redistributive effects are a zero-sum game from the national economic efficiency perspective if they merely shift firms and people from one location to another rather than increasing the number (or size) of firms." "Rural Economic Development in the 1980s," ERS, p. 289. Also see "Brighter Futures for Rural America," National Governors Association; "The Role of Entrepreneurship in Rural Economic Development," prepared for the Joint Economic Committee symposium, September, 1988, T. Johnson, Virginia Polytechnic Institute and State University.

[13] See n. 9.

[14] "Factors Influencing the Performance of U.S. Economic Development Administration Sponsored Revolving Loan Funds," August 1987. In addition, several states have had excellent expe-

Continued

In addition, the bill creates a Rural Capital Access Program to encourage lending institutions to provide new loans to businesses in rural areas. It does this by allowing States (or private institutions) to set up programs in which borrowers, banks, and the Federal Government (USDA) contribute capital to "subaccounts" which would protect the lenders investment. This should encourage loans for business purposes that would otherwise not have been made and thus stimulate the rural business economy.

### ASSURING THAT ESSENTIAL PUBLIC SERVICES ARE IN PLACE

Many rural counties have inadequate water,[15] sewer, telecommunications, road, bridge, or public transportation systems.[16] In many instances these deficiencies make it difficult to attract new business.

The Federal Reserve Bank of Kansas City reports that "[f]ederal infrastructure programs do appear to have stimulated income growth in rural counties. Counties receiving Economic Development Administration aid have consistently grown more rapidly than counties without aid." [17]

Rural housing and health care are inadequate in many areas. Long distances must be traveled to hospitals and specialized medical care facilities. Transportation services can be minimal—making the situation all the more difficult.

### SAFE DRINKING WATER

Many rural communities have yet to comply with provisions of the Clean Water Act.[18] Also, the United States Environmental Protection Agency's 1984 study of water quality found that two thirds of rural water supplies violated EPA drinking water standards. Several million rural households may be drinking contaminated water. The agency's 1986 National Needs Survey estimates that 70 percent of the Nation's substandard wastewater facilities (2000 out of 2800) are in small towns and rural areas, and that 80

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riences with revolving funds in terms of business and job creation. For example, testimony before the Subcommittee on Rural Development of the Senate Committee on Agriculture, Nutrition and Forestry, and summarized in the "Committee Consideration" section of this report, demonstrated how well these funds have worked in Vermont. Revolving funds, begun with federal seed money, operated by the Northern Community Investment Corporation (St. Johnsbury, VT) and by the Economic Development Council of Northern Vermont (St. Albans, VT) have had outstanding successes in lending to businesses initially turned down by commercial banks. Vermont has the third to the lowest unemployment rate in the Nation in part because of those, and other, investment revolving funds which operate in Vermont. The Vermont Job Start program has also been a very effective revolving fund program which has helped low-income Vermonters.

[15] Forty-five percent of the Nation's rural communities rely on private water wells, other onsite water supplies such as cisterns, or hauled water for their water needs. Rural Development Perspectives, October 1984.

[16] "In the 2 years following deregulation, but lines abandoned 20 percent of the communities they served, and airlines abandoned 17 percent of the airports they served," according to Clinton Oster, Transportation Research Center, Indiana Univ., Bloomington. Rural Development Perspectives, June, 1988. He further notes that cuts in bus service presented a more severe problem since people who take buses often lack access to other transport. Also, "most communities losing bus service were so small that they were probably not served by other forms of public transportation." In the 12 states surveyed, 1,300 communities lost bus service between 1975 and 1985. The Administrator, USDA's Office of Transportation, bluntly stated that "[m]any of this Nation's communities are facing isolation."

[17] Economic Review, Jan. 1987.

[18] CRS Background Briefing Paper Prepared for the Senate Agriculture Committee, "Federal Assistance for Water and Sewer Systems," Feb. 22, 1989.

percent of the communities that are not in compliance have populations of less than 10,000.

They also concluded that smaller communities face higher than average per capita costs in constructing sewer plants and that they spend a greater share of their income on these facilities.[19] Many of these communities lack the resources to improve their sewage treatment systems.

Neither the funds available to the Committee nor the Committee's jurisdiction permit it to address all of the infrastructure needs of rural America. The Committee did focus on three major problems in addition to dealing with the lagging rural economy: inadequate telecommunications service; unsafe drinking water and inadequate water pollution controls.

The bill deals with the safe drinking water and wastewater problems in three ways: it increases Farmers Home Administration grant programs to the poorest rural communities; it provides a special program through the Secretary for rural electric cooperatives to invest in water system improvements and construction in rural communities; and it allows the banks for cooperatives of the Farm Credit System to originate water and sewer loans to communities.

TELECOMMUNICATIONS

> Infrastructure investments in transportation and the quality of telecommunications and electric services are likely to be the most important infrastructure-related development tools for rural communities. * * * Improved quality and diversity of telecommunications is essential if rural areas are to attract service firms.
>
> —Economic Research Service, USDA.[20]

> The REA telephone program is one of the great unsung success stories in rural economic development. At relatively minor cost to taxpayers in the form of interest subsidies, this program has helped build the rural telphone infrastructure which has fostered rural development over the past 50 years.
>
> —The Aspen Institute.[21]

Rural companies are often at a competitive disadvantage, as compared to urban firms. In some cases the rural phone service is outdated and more expensive than urban phone service. The existing copper phone lines, using analog switching, do not provide the capacity for cost-efficient computer "on-line" activities nor for the rapid transmission of data or imates.[22]

Modern digital telecommunications allows voice, computer data, image and graphics to be combined together. Digital switching equipment also thus helps greatly reduce the costs of long-distance telecommunications (by dramatically reducing transmission time).

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[19] "Municipalities, Small Business and Agriculture: The Challenge of Meeting Environmental Responsibilities," EPA Doc. 230-09/88-037.

[20] Economic Research Service report to Congress, "Rural Economic Development in the 1980's", 1988.

[21] "Rural America in the Information Age", 1989, The Aspen Institute, by Edwin B. Parker, Heather E. Hudson, Don A. Dillman, and Andrew D. Roscoe.

[22] "Importance of Communications in Rural Development", the Aspen Institute, 1988.

These types of telecommunications are routinely available in urban areas, but not always in rural areas.

The problem is clear. For example, rural businesses without adequate phone lines lost contracts to supply Chicago hospitals by an urban-based company that could maintain an online inventory control system.[23] L.L. Bean has to lease digital switching equipment since the phone service is inadequate in rural Maine—but they save over $500,000 per year in phone bills by doing so. Many smaller firms would not have the funds to lease or purchase such equipment.

The legislation will fund the development of advanced telecommunications links in rural areas for three major users: schools, hospitals and businesses. The Committee does not have available sufficient funds to upgrade all rural phone lines. Focusing on improved education, medical care, and business opportunities should greatly help rural America.

Rural schools often cannot afford to hire teachers for their best and brightest—those few that may want to learn advanced calculus, physics or a foreign languge. America's future, its competitiveness in world markets depends on its children. Access to the best teachers is equally as important in rural America as it is in urban America.

The bill establishes a rural star schools program to link students with the best instruction through telecommunications. It will also allow for access to educational computer data banks perhaps hundreds of miles away.

Telecommunications can also improve rural medical care. Teaching hospitals can be linked to rural hospitals—medical experts can look at diagnostic images sent electronically and greatly assist the rural physician. Assistance in electronic linking of rural and teaching hospitals can not only speed-up diagnostic determinations, but can improve the dissemination of medical advances and new treatments.

## CONCLUSION

Many rural counties will be aided by this bill. In the last 50 years there has been a huge decline in the number of persons involved in agriculture.

On a nationwide basis, residents of rural counties (as compared to urban counties) have lower per capita income and higher poverty rates. The lower tax base and standard of living has resulted in fewer educational opportunities and reduced levels of medical care in many rural areas. There has been a dramatic outmigration of the Young and the most educated from rural to urban counties.[24]

Over 400,000 persons a year have left rural America over the last several years—and no end is in sight.

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[23] See previous footnote and "Rural America in the Information Age," Aspen Institute, 1989.

[24] The median number of years of education for residents of metro counties is 12.6 years, nonmetro is 12.3 years. (1980 data, ERS, p. 21.) However, that tells half the story. The most highly educated rural residents are much more likely to move to metro counties. For 1986–1987 there was a 3 percent net migration among rural residents with 4 years, or more, college to metro counties. ERS, Rural Development Perspectives, June 1988. A 1985 Gallup poll found that only 30 percent of college graduates preferred to live in a small town or open country area, compared with 53 percent of the high school graduates. ERS, p. 32.

Without increased economic growth, rural America will continue to fall further and further behind the country as a whole. Increased economic growth in rural America requires additional investment in rural capital markets, in human resources, and in critical infrastructure resources. This legislation provides highly leveraged capital to expand economic activity, uses new technologies to enhance human resources and concentrates federal and private resources on critical infrastructure needs.

## COMMITTEE CONSIDERATION

### APRIL 5, 1989, HEARING

On Wednesday, April 5, 1989, the Committee on Agriculture, Nutrition, and Forestry met to hear testimony on rural development issues.

The first witness was Mr. Murray D. Lull, Chairman, Executive Committee, Agricultural Bankers, Division, American Bankers Association. Mr. Lull emphasized the need for equity capital to be made available to rural development projects. Mr. Lull pointed out that despite the efforts of community, regional, and national programs, both public and private, including those of the Small Business Administration and Farmer's Home Administration, rural communities are in need of further assistance.

Mr. Lull stated that banks must be concerned primarily with the safety of their customers' deposits, and customer trust is particularly important in rural communities. Thus, banks are restrained from making grants in the name of rural development, and are likewise restrained from extending credit in the absence of adequate collateral or cash-flow to provide for timely repayment of the loan. Mr. Lull expressed the interest of the American Bankers Association in working with Congress to develop equity-forming mechanisms that would provide equity capital.

Mr. Lull proposed that expanded and enhanced Federal guarantee programs could ensure depositor protection while allowing rural banks to fulfill their responsibilities as local creditors. Federal capital would alleviate the reluctance of lending institutions to finance thinly-capitalized businesses, and stimulate broader rural growth.

Mr. Lull concluded by reemphasizing the banking industry's stake in the strengthening and diversification of rural economic bases, and affirmed the commitment of the banks to cooperating with Congress in the revitalization of rural America.

The next witness was Mr. Will Kitchen, telecommunications consultant, Edina, Minnesota. Mr. Kitchen recounted his experiences in developing and implementing educational telecommunications systems in rural communities around the country. Emphasizing the important role of education in economic development, Mr. Kitchen pointed out that rapid progress has been made in rural education since the inception of telecommunications systems.

Mr. Kitchen explained that by using interactive telecommunications technology, a teacher can simultaneously teach students in multiple school districts. The interactive system allows the teacher and all of the students to see and hear each other. Using such a network, one cooperative of seven school districts offered 21 new

high school courses, in addition to college classes, and over 500 community residents took courses over the network. Mr. Kitchen described several other such examples of the utility of educational telecommunications systems, and noted that many other areas are also in a position to benefit from this technology.

Mr. Kitchen pointed out that the current star schools bill, while it meets some important financial needs of rural schools, is limited in application to statewide or multi-State projects. Local communities also need direct assistance in developing their own networks and curricula to serve their businesses and students. Mr. Kitchen asked the committee to consider in a rural economic development legislation package a rural telecommunications model that would include funding for multiple technologies, offer telecommunications as a community resource, encourage cooperation between all levels of education and business, incorporate medical and health care service into the network, and emphasize local control of programs and content.

The last panel consisted of Mr. Stephen McConnell, President, Northern Community Investment Corporation (NCIC), St. Johnsbury, Vermont; Mr. Larry Farmer, Mississippi Action for Community Education (MACE), Greenville, Mississippi; and Mr. Neal Barber, Director, Virginia Department of Housing and Community Development, Richmond, Virginia. Mr. McConnell explained that NCIC, a non-profit organization, serves as a catalyst for economic development. NCIC combines investment capital and professional staff, in partnership with private and public resources, to generate greater economic opportunity and benefit for the residents of a depressed rural region. NCIC provides only the capital that is necessary beyond what conventional banking institutions are able to provide, working with those institutions to provide enterprises with the equity capital needed to succeed.

Mr. McConnell reported that NCIC has invested over $18 million directly and has leveraged an additional $85 million in public and private resources. NCIC investments have created or sustained 2,600 jobs with an annual payroll of over $41 million, and have provided apartments, sheltered care facilities, and housing for over 430 area residents. NCIC has assisted in financing both existing and start-up companies; much of this financing has been directed to the start-up and growth of micro businesses, which account for a substantial percentage of new jobs across the country.

Mr. McConnell emphasized that NCIC makes investments, not grants, and expects a return on its investments that can be applied toward further investments. Consequently, NCIC limits the term of its financial investments. This early return on investments supports further investment, and has produced an annual investment rate between $1.5 and $2 million over the last six years. Mr. McConnell summarized his remarks by stating that while economic development is only part of an overall rural development and growth strategy, the application of capital is necessary in order to stimulate the local economy.

Mr. Farmer prefaced his explanation of MACE by stating that the rural America he works with resembles the urban centers of the country in its economic and social problems. MACE is a tax-exempt, community based development corporation that was found-

ed in 1967 with the purpose of transforming civil rights gains and judicial rulings into tangible advances for the poor and black persons in the Mississippi Delta. MACE has provided training to over 150 leadership development trainees from the Delta, and from regions of Arkansas, Louisiana, Florida and other parts of the deep South and Southwest. MACE has leveraged over $21 million in various municipal services for predominantly black and disadvantaged rural communities, and has also assisted in the incorporation of five predominantly black, poor rural communities and the securing of municipal services for those towns.

Mr. Farmer said that despite these gains, the rural Mississippi Delta is still facing socio-economic problems. Mr. Farmer cited statistics reporting that over half of all black males in the Mississippi Delta are unemployed, that more black males are in jail and unemployed than in high school and college, and that about 40 percent of all high school students drop out before completion of the 12th grade. Stating that these and other factors are creating a rural ghetto, Mr. Farmer said that this ghettoization contributes to the urban underclass of cities to which rural residents migrate. Ultimately, the country as a whole suffers as a result of rural deterioration.

Mr. Farmer finished his remarks by calling for a commitment of Federal resources for the development of capital pools and partnerships to share the risk in rural investment and revitalization.

Mr. Barber noted the high unemployment rates in rural areas of Virginia, and pointed out that while such development projects as new prisons and a new landfill are bringing new jobs to these areas, there is a further need for diversification of the rural economy. Mr. Barber listed infrastructure development, business incentives, human resource development and leadership and organizational development as the principal bases of rural economic diversification. Organizational and leadership development is especially important in enabling communities to achieve self-sufficiency and to gain flexibility in dealing with change, and this development should be administered at the local level.

Mr. Barber called for increased investment in transportation and water and sewer facilities, and for increased rural incentives for business and industry. The Virginia Communities for Opportunities Program is providing one such incentive by working toward the establishment of a 160 acre regional industrial park in southwest Virginia. Few Federal resources have been available on an investment basis. Mr. Barber stated that Virginia is willing to make investments in rural areas, and suggested that Federal investment policies be reviewed with an eye toward such investment.

Virginia has also provided business training as an incentive for business development, and is implementing various financing techniques to aid this development. In addition, Virginia provides technical assistance and small business advisory centers. In the area of human resource development, Virginia made an educational investment of over $500 million in 1988 to reduce inequities between rural and suburban school systems. Investments have also been made in housing and literacy programs. Mr. Barber pointed to these programs as examples of the broad range of development programs that are offered by the States, and asked that Congress pro-

vide needed monies to support the continuation and creation of these programs on a broad scale. Mr. Barber summed up his presentation by requesting that the Federal Government join the States as a co-investor in the development of rural America.

MAY 11, 1989, HEARING

On Thursday, May 11, 1989, the Subcommittee on Rural Development and Rural Electrification of the Committee on Agriculture, Nutrition, and Forestry met to hear testimony on rural development issues.

The first panel was composed of the Honorable George A. Sinner, Governor of North Dakota, and the Honorable Bob Bergland, Executive Vice President and General Manager, National Rural Electric Cooperative Association (NRECA). Governor Sinner spoke on behalf of the National Governors' Association (NGA), asking the committee to consider rural business incentives in cooperation with the States. Governor Sinner noted that the urbanization of America is at the root of many of the socio-economic problems of the Nation, and charged that macro mismanagement of national fiscal and monetary policies have damaged the entire production sector.

Programs such as the Community Development Block Grants funding program are very useful to the States, Governor Sinner emphasized. The NGA would be supportive of a Federal rural development oversight board that could facilitate the use of Federal assistance in implementing individual State strategies.

Governor Sinner also stressed that traditional business incentives such as tax credits encourage and enable companies to move into rural areas, and asked the committee to consider such incentives. In conclusion, Governor Sinner stated that Congress and the administration need to establish a coordinated Federal-State response to rural development, and pledged the NGA's assistance to the committee.

Mr. Bergland pointed to the success of the Rural Electrification program begun under President Roosevelt as an example of the necessity for, and potential of public/private partnership in rural development. In such a partnership, Federal funds are used to assist underfinanced local communities, and local commitment to the programs ensures their continuing success, even after Federal assistance has been reduced or withdrawn. Such programs ultimately provide a return to the Federal Government that far outweighs the initial investment, due to greatly increased income per capita and the resulting increase in taxes.

Mr. Bergland emphasized that there must be local buy-in in order to maintain these programs successfully. The NRECA has found that it is most productive to base development programs on existing industries, and to focus on small businesses, which are the principal employers in rural areas. Mr. Bergland listed water systems, sewage treatment, waste disposal, and education as areas in which the Federal Government might provide investment assistance. Mr. Bergland concluded his testimony by affirming that advances in electronic technology would aid greatly in improving rural education and establishing rural businesses, and stated that community investment in this improvement needs to be leveraged

into a larger fund and professionally managed to provide sufficient capital.

The second panel consisted of Mr. George F. Alford, President, National Association of Development Organizations (NADO) and Executive Director, Alabama-Tombigbee Regional Council, Camden, Alabama; Mr. Robert L. Thompson, Dean, School of Agriculture, Purdue University, West Lafayette, Indiana; and the Honorable James Everett, Executive Judge, Fulton County, Hickman, Kentucky.

Mr. Alford identified revolving loan funding, technical assistance and infrastructure development as three particularly important factors in the creation and maintenance of jobs in depressed rural economies. Federally administrated capital is needed at the local level to target economically depressed rural areas even in States that are overall economically sound.

Mr. Alford proposed that the allocation of funds should take into account the fact that many local banks are unable to match revolving loan funds, and he also proposed that local bankers be involved in the management of the Federal revolving loan fund to stimulate their interest in financing local development.

In addition, Mr. Alford pointed out that funding is needed for technical assistance to local governments that lack the resources to carry out such development initiatives as industrial and economic profiles. The infrastructure must be upgraded as well, in order to attract and support rural business. Mr. Alford explained that his region of Alabama has lost expanding businesses due the lack of adequate access roads, and concluded by asking that the committee consider the importance of services such as transportation, in addition to municipal services such as water and sewer.

Mr. Thompson identified diversification of the economic base and the generation of wealth through new jobs as two basic strategies to strengthen the rural economy of America. In the pursuit of these strategies, it is necessary to invest in rural education, and to invest in the transportation and communications infrastructures of rural areas.

Mr. Thompson stated that these investments would not be sufficient alone to address the complex issues of rural development, and they need to be supplemented with the development of human resources such as literacy programs, job and leadership training, and technical assistance. The community services of the land-grant university system and the Cooperative Extension Service are examples of the kinds of programs that can provide rural technical assistance and training. Mr. Thompson concluded by saying that these programs, particularly those supplied by the land-grant university systems, are in need of Federal funding to promote cooperation between State and local governments and to assure a national perspective.

Mr. Everett emphasized the necessity of local involvement in rural development programs, and contended that many local resources are in place. Given that local, regional and state officials already are working together and with Federal agencies, Mr. Everett suggested that existing local and state development strategies could be cooperatively utilized under a Federal program of finan-

cial support. This Federal assistance would provide the "missing link" in broad revitalization programs.

Mr. Everett noted that his school system is working with TVA to install an interactive telecommunications system, and expressed his support of telecommunications advances in rural education. Mr. Everett also expressed his concern that local officials should retain a significant measure of control over Federal funds, in order to apply them most effectively to specific local problems. Finally Mr. Everett reminded the committee that many communities would not have the resources to match funds in a revolving loan program, and pointed out that requiring communities to match funds would make rich communities richer and poor communities poorer.

MAY 16, 1989, HEARING

On Tuesday, May 16, 1989, the Subcommittee on Rural Development and Rural Electrification of the Committee on Agriculture, Nutrition, and Forestry met to hear testimony on rural development issues.

The first panel consisted of Mr. John Garrett, National Rural Water Association, Montgomery, Alabama, Member, Alabama Rural Water Association; Mr. Chris B. Page, Executive Director, Economic Council of Northern Vermont, St. Albans, Vermont; Mr. Robert Wales, President, Mississippi Association of Conservation Districts, Hattiesburg, Mississippi; and Mr. Alex Curtis, President, and CEO, Farmers Grain Terminal, Inc., Greenville, Mississippi.

Mr. Garrett pointed out that Farmers Home Administration appropriations have enabled water service to be provided to many rural areas; about 83 percent of Alabama has running water today. Mr. Garrett said that is necessary to find the means to provide water service to the remaining areas, as well as to upgrade existing systems. Mr. Garrett concluded that Federal funds must be provided to the local communities who provide water and sewer service, in such a way that the systems and the users are encouraged to absorb a reasonable amount of the cost. These funds might take the form of revolving loans, or seed money that could be used to finance state bonds.

Mr. Page outlined the various resources that would be available through the proposed Rural Partnerships Act to rural communities seeking to expand and diversify their economic base without sacrificing the rural character of existing business. A National Rural Information Clearinghouse could assist local areas in development research, utilizing Federal programs and research from other areas and organizations, and providing expertise not necessarily available to local communities.

Mr. Page said that the Rural Partnerships Act could also make available public facility grants for upgrading municipal services necessary to support increased development. A technical assistance program could provide local communities with the skills needed to operate new businesses. Finally, the Rural Partnerships Act could supply capital through community development block grant funds, revolving loan funds, and venture capital funds. Mr. Page concluded by appealing for a Rural Partnerships Act that would be orient-

ed around a resource based product, act on a scale appropriate to rural areas, and be supportive of local and regional governments.

Mr. Wales noted that today most of the economic resources are located in urban areas, and that rural revitalization must involve returning some of that money to rural areas. Mr. Wales cautioned against sacrificing long-term economic solutions by focusing on quick growth, and concluded by saying that a national commitment to rural development should take into account the fact that many of the needed human and financial resources are already in place, but are in need of training and reorganization.

Mr. Curtis spoke on behalf of the National Council of Farmer Cooperatives (NCFC), a trade association representing 90 regional marketing and supply cooperatives, 32 state councils and the cooperative Farm Credit System. A recent USDA analysis reports that farmer cooperatives have a total investment of over $27 billion and a combined business volume of nearly $75 billion annually. Mr. Curtis states that an increased emphasis and support for research, education and training, and an improved communications and transportation infrastructure is needed to attrack capital and encourage sustained investment in rural development.

Mr. Curtis further suggested that existing programs be reevaluated and that present and future funds be allocated in such a way as to ensure that rural America benefits directly from these investments. Mr. Curtis emphasized that inadequate education is preventing rural communities from fully realizing the investments that have been made in rural development and hindering rural competition in domestic and international markets. Finally Mr. Curtis noted the progress that the 1985 Farm Bill has made in revitalizing the farm economy that is an important element of the rural and national economy, and promised that the NCFC would work closely with the committee to develop rural revitalization strategies.

The second panel of witnesses consisted of Mr. Joe Beck, Board Member, Farm Credit Council, Washington, D.C., Member, Board of Directors, Farm Credit Bank of Louisville; Ms. Ann Cole, National Association of Towns and Townships (NATT), Washington, D.C.; and Ms. Kathleen Braaten, Third Vice President, National Association of Counties (NACO), Washington, D.C., Richland County Commissioner, Barney, North Dakota.

Mr. Beck emphasized the necessity of competitively priced credit in rural areas for economic growth, and pointed to the vital assistance that the Farm Credit System has given to these areas. Given the importance of the rural business community to the agricultural community, system institutions such as the Farm Credit System could play a crucial role in financing the infrastructure of rural areas. The Farm Credit System could provide the fixed rate, long-term loans required by local infrastructure projects such as water and waste disposal systems. Mr. Beck concluded by stating that with only minor changes to authority, the Farm Credit System would be well positioned to assist in the development of rural business in a way that would be compatible with and complementary to the ongoing lending program.

Ms. Cole spoke on behalf of a local government coalition consisting of the National Association of Counties, the National Associa-

tion of Development Organizations, the National Association of Regional Councils, the National League of Cities, the National Rural Water Association and the National Association of Towns and Townships. Ms. Cole expressed the common position of the coalition that an integral role must be provided for local government in rural development initiatives. Local governments offer development experience and a flexible delivery network which can assure access for Federal support that should include capital, long-term investment, subsidies, technical assistance and strategic planning.

On behalf of NATT, Ms. Cole urged the committee to coordinate its efforts with other committees with legitimate interests in rural development, in order to prevent funding and jurisdictional concerns from blocking legislation, particularly in reference to infrastructure development. Ms. Cole further urged the committee to consider the cooperation of community based organizations with government programs, and to consider an aid delivery system that would ensure that the neediest communities receive the highest priority. Ms. Cole commended the committee for its interest in rural development and pledged NATT's assistance.

Ms. Braaten emphasized that local government must be actively included in the revitalization of rural areas, and that this revitalization should build on existing leadership and institutions. Speaking for NACO, Ms. Braaten applauded the pending legislation's proposal that Federal revolving loan fund applicants demonstrate development goals consistent with those of the state and county, but expressed concern that the language of the legislation did not clearly outline the provisions that would determine consistency. Ms. Braaten recommended that Federal evaluation of loan applications take into consideration comments from the local governments in the service area.

Ms. Braaten expressed NACO's support of Federal funding for local governments to hire economic development specialists, and summed up her testimony by reiterating the need for a broad investment in rural infrastructure, calling for the Senate Rural Development Task Force to be used as a coalition to push for a rural infrastructure bill.

## MARKUP

The committee met on June 13 and 14, 1989 to markup S. 1036. Chairman Leahy offered a substitute for S. 1036 and it was open for amendment. A number of amendments were agreed to and S. 1036, as amended, was ordered favorably reported by the committee by voice vote. Provisions of the following bills were included in the substitute: S. 759, S. 862, S. 973, S. 998, S. 1008, S. 1017, S. 1019, S. 1023, S. 1024, S. 1027, S. 1028, S. 1029, S. 1030.

## SECTION-BY-SECTION ANALYSIS

## THE RURAL PARTNERSHIPS ACT OF 1989

# TITLE I—RURAL BUSINESS AND JOB CREATION

### SUBTITLE A—RURAL PARTNERSHIPS INVESTMENT BOARD

*Summary*

The Rural Investment Program created by this subtitle is designed to stimulate job and business creation in rural America by enhancing investments in local businesses through State, regional, county, or local revolving funds initially funded with Federal "seed" money.

*Chief advantage*

Establishing State or locally run investment funds, requiring a private funds match for each investment, is an extremely cost-efficient method to stimulate business creation to assist local businesses, leveraging the one-time Federal funding in partnership with banks, without a Federal bureaucracy.

*Section 101. Definitions*

This section defines terms used in subtitle A concerning the rural investment program. It defines those entities eligible to obtain assistance from the Rural Partnerships Investment Board as including, among others, the State agency primarily responsible for rural economic development, public regional councils, governing bodies of county or local governments, Indian tribal entities, and nonprofit community development organizations. Those "eligible entities" would use such funds to create local "revolving funds" to provide loans, equity investments or loan guarantees to local businesses or persons wishing to create businesses.

It also defines those areas which can be served under this subtitle ("rural areas") as those territories of a State not within the boundary of any city or town having a population of 20,000 or more, nor within any neighboring urbanized area.

*Section 102. Rural Partnerships Investment Board*

This section creates a temporary federal "Rural Partnerships Investment Board," to provide lines of credit (which are very similar to grants except the funds are made available as needed) to approved applicants ("eligible entities") that will place the money in revolving funds to be used for investments in new or expanding rural businesses.

Each approved eligible entity can be approved for a line of credit of up to $750,000 in the first year (and up to $2,250,000 in total over five years), except that the State agency can receive up to $1,250,000 in the first year (and up to $3,750,000 over five years).

Each grant recipient will establish a revolving fund (with the Federal "line of credit" funds, local matching funds, interest collected on loans, proceeds from repayments of loans or equity investments and other profits) for investment in certain new or expanding local businesses in conjunction with lending by banks,

saving and loan associations, or community development credit unions. The Federal board is disbanded in five years and the Secretary of Agriculture then takes over to monitor compliance with this Act. No additional Federal funds are to be issued after the end of the fifth year.

*Board of Directors.*—The Board of Directors of the "Rural Partnership Investment Board" (the Board) shall consist of the:

Administrator of the Rural Electrification Administration (REA);

Administrator of the Farmers Home Administration;

Administrator of the Cooperative Extension Service; and

Two members appointed by the President, by and with the advice and consent of the Senate.

*Chairperson of the Board.*—The chairperson shall be elected by the Board members from among the three Administrators. The chairperson shall serve two-year terms and may be reelected.

*Section 103. Establishment of investment fund*

The Board shall use a fund established in the Treasury of the United States called the Rural Business Investment Fund to provide lines of credit for the revolving funds serving businesses in rural areas.

*Basic requirements.*—To be eligible for the Federal funds, the applicant must demonstrate its ability to make sound business, lending and investment decisions and its ability to increase the availability of credit in rural areas to promote the creation or expansion of viable businesses in rural areas.

*Geographic spread.*—The Board shall attempt, as much as is reasonably possible, to assure that revolving funds in all rural regions of the Nation benefit from the Federal lines of credit. If consistent with good investment practices, revolving funds in at least 45 of the 50 States would receive (in total) at least $750,000, per State, and each State which receives this seed money should have at least two revolving funds.

*Assistance to local businesses.*—Each revolving fund could guarantee loans, make capital investments, or loan money to local businesses in partnership with local banks, savings and loan associations, or community development credit unions.

*Service areas.*—Each applicant wishing to set up a revolving fund (each "eligible entity") must identify its proposed service area and define a strategy for serving it. The applicant must describe the common characteristics (such as similar industrial, labor, or other markets, similar geographic or socioeconomic conditions, or other related considerations) of the area. In addition, the service area's median household income must be less than the statewide nonmetropolitan median household income for the State.

*Federal investment in local revolving funds.*—In determining which applications to approve, and the amount approved, the Board shall also give a preference to entities:

(1) with prior experience in serving local credit or equity needs, or with the ability to serve such needs;

(2) whose boards of directors are composed of a broad cross-section of persons;

(3) likely to stimulate significant job and business creation or expansion per dollar of federal funds;

(4) submitting applications demonstrating the ability and willingness to provide continuing technical and management assistance, and financial and business guidance, to local businesses in which they invest;

(5) that demonstrate that the activities of the entity are consistent with State, county or local goals, whichever is applicable, regarding long-term growth and community development;

(6) whose applications demonstrate a comprehensive investment strategy, developed in consultation with State, regional and local governments; and

(7) that propose to serve a service area whose unemployment or poverty rates exceed the statewide nonmetropolitan average.

*Leveraging Federal funds.*—The Board shall consider applications from entities (to set up revolving funds), and fund approved applications, over the next five years.

To be approved each entity must also:

(1) match, under procedures set by the Board, each dollar in the Board line of credit with a dollar in either cash, or cash equivalents, or letters of credit, from banks, financial institutions, local or State governments, or other entities (including itself or foundations); or

(2) present evidence (such as letters of intent) that banks, savings and loan associations, or community development credit unions, are prepared to participate in a lending program to local businesses (with the revolving fund) in amounts at least equal to the value of the Federal line of credit.

Exceptions: If the average per capita income level of the counties containing service areas is less than 70 percent of the national average per capita income, the applicant need only match, as described above, half the funds to be provided by the Board. Further, Indian tribal entities operating on federally recognized Indian reservations do not need to meet the financial matching requirements.

Once any particular line of credit from the Board is approved, the local "eligible entity" operating the revolving fund will make the case-by-case decisions of which investments, guarantees, or loans to make.

*Subordinated interest of revolving fund.*—The capital invested by the revolving fund may be subordinated to the other investments in each instance; i.e., losses may be taken from the fund's share first regarding each individual investment or loan.

*Maximum to each State.*—The total amount of Federal funds provided to all the participating revolving funds in each State cannot exceed $10,000,000.

*Special program.*—The Board shall create a program in which not less than five percent (if consistent with sound investment practices), but not more than 15 percent, of the funds appropriated be used to provide letters of credit to entities that will serve local businesses located in very distressed rural areas or local businesses which provide beneficial services such as improved medical care, licensed day care, improved transportation for the elderly or disabled, or other services to the handicapped.

*Authorization of appropriations.*—$100,000,000 is authorized to be appropriated in fiscal year 1990, $86,000,000 is so authorized in 1991, $67,000,000 is authorized for 1992 and $47,000,000 is authorized for fiscal year 1993 to fund the Rural Business Investment Fund.

*Prohibitions.*—The Board must issue regulations to prohibit investments that: (1) facilitate relocations of businesses; (2) would be used simply to refinance the existing debt of a business (unless related to a major expansion effort); or (3) that significantly reduces the viability of an existing business engaged in the same business activity in the same community.

*Section 104. Local revolving funds*

Each eligible entity receiving funds from the Board must create a local revolving fund through which loans, investments, or loan guarantees, will be made. The revolving fund can also be used for operating or capital expenses and to cover the costs of providing training, business or financial planning, or management or technical assistance to approved businesses in amounts that do not exceed amounts or levels set by the Board.

*Partnerships with banks.*—No capital can be lent or invested by any revolving fund unless banks, or savings and loan associations, or community development credit unions, participate in each loan or investment by providing at a minimum a dollar-for-dollar match—each dollar of Federal money from the revolving fund will be matched with at least a dollar from those financial institutions.

*Investment limits.*—Investments made with Federal funds out of each revolving fund in any single business cannot exceed $250,000, in any calendar year. No investments can be made to businesses which employ 100 or more employees.

*Monitoring and enforcement.*—Eligible entities setting up revolving funds to invest in businesses may continue to engage in such lending or investment activities after the Board is terminated (five years after enactment of the Act). However, the Secretary of Agriculture shall monitor the activities of these revolving funds to ensure that the funds are invested consistent with the purposes of the Act after the Board is terminated.

*Section 105. Compliance and enforcement*

This section creates an enforcement mechanism to help ensure that the Federal funds supplied under sections 101 through 104 are used for their intended purposes. Section 105 provides for procedures to: revoke lines of credit, punish persons making false statements in applications for the lines of credit, issue cease and desist orders to compel compliance with this Act or regulations, issue subpoenas, require audits and examinations, impose civil penalties, or otherwise enforce this Act. Also, if the Board or the Secretary revokes a line of credit, or the eligible entity otherwise goes out of business, the local businesses would have to pay their obligations to the Board, or the Secretary, whichever is appropriate.

## SUBTITLE B—RURAL CAPITAL ACCESS PROGRAM

*Purpose*

To encourage lending institutions to provide new loans to businesses in rural areas.

*Chief advantage*

Leverages private capital for investment in business creation, expansion and retention. Uses existing local institutions to provide assistance, thus avoids costly Federal or State bureaucracy.

*Section 111. Definitions*

Defines terms used in the subtitle such as "rural area," which has the same meaning as in subtitle A (all territory of each State not within the outer boundary of cities or towns with populations in excess of 20,000, or more, nor within the neighboring urbanized areas).

*Section 112. Rural Capital Access Program*

The Secretary is required to establish a program to encourage banks to lend to rural businesses by setting up a fund, the "Rural Capital Access Fund," to provide additional protection regarding the loans that banks and other lending institutions make to businesses in rural areas.

*Section 113. Authorization of appropriations*

There are authorized to be appropriated $15 million in fiscal year 1990, $20 million in fiscal year 1991, $30 million in 1992, $40 million in 1993 and $60 million in 1994 for the rural capital access program. Amounts appropriated each year, but not obligated, shall not remain available for use after the end of the fiscal year for which they were appropriated.

*Section 114. Allocation*

Any appropriated amounts shall be allocated to States based on a formula: each State receives an amount that bears the same ratio to the total amount of the appropriation as the number of individuals residing in rural areas in the State bears to the number of individuals residing in rural areas in all States. Amounts not obligated by June 1 of each year in a State may be used in connection with the program in other States.

*Section 115. Administration of the program*

States may apply to administer the program for their State by filing a written application. If any particular State chooses not to participate in the program, a qualified private institution could apply to the Secretary. The administering entity must recruit lending institutions in the State to participate, enter into agreements with lending institutions regarding program operations, and maintain records of the program activities. Loans eligible for protection under the program cannot be in excess of $3 million.

Loans eligible for protection do not include loans:

To be used for construction or purchase of residential property;

Used to finance any real estate purchase primarily for investment purposes unless the purchase is in connection with the business of the borrower; or

Made to a director, officer, or shareholder of the lender or a member of their immediate family.

*Section 116. Operation of the program*

A participating lending institution may make laons to eligible borrowers and such loans will be protected by one of the subaccounts of the fund. A subaccount shall be created in the fund for each lending institution that enters into an agreement regarding participation in the program. Minimum contributions to the fund for each eligible loan are as follows:

Not less than 1.5 percent of the amount of the loan to be paid by the borrower;

The same amount, paid by the lending institution; and an amount equal to the sum of the above, paid by the Secretary of Agriculture.

The lender and the borrower may agree to higher contributions to the subaccount, not to exceed 3.5 percent of the loan, for the borrower and the lender, to be matched at up to 7 percent by the Secretary.

The subaccount for each institution shall earn interest at a rate equal to the current average market yield on outstanding marketable obligations of the United States. When a lending institution charges off all or part of an eligible loan, the institution may file a claim for the full amount of such a charge-offs, and out-of-pocket expenses associated with the loan. The Secretary has 20 days to review any such claims and make payment to the lender, if appropriate.

*Section 117. Inactive lending institutions*

This section contains provisions for moving unneeded capital out of accounts where excess funds have been located for at least 24 months.

*Section 118. Initial program incentives*

This section sets forth procedures to encourage the participation of lending institutions. The Secretary shall contribute an amount equal to 150 percent of the amounts contributed by lenders and borrowers for the first $2 million of principal on loans protected under this program. In addition, special provisions apply to the first $5 million of principal on loans made by a lending institution that are protected under this program.

## SUBTITLE C—RURAL ECONOMIC DEVELOPMENT PROMOTED BY THE SECRETARY AND THE RURAL ELECTRIFICATION ADMINISTRATION (REA)

*Purpose*

To improve rural water and sewer systems, to increase REA borrower investments in business "incubators," and to appoint an as-

sistant administrator to put economic development on an equal footing within REA with rural electrification and telephone efforts.

*Chief advantage*

Provides better coordination of REA efforts regarding rural development. Also, allows REA borrowers to assist in improving rural water and sewer systems.

*Section 120. Assistant Administrator for Economic Development*

Presently REA has three Assistant Administrators (electric programs, telephone programs, and management). The bill creates a fourth Assistant Administrator to assist and facilitate the successful involvement of rural electric and telephone systems in community and economic development. Not less than 10 percent nor more than 20 percent of the salaries and expenses provided to the Administration during any fiscal year shall be used by the Assistant Administrator in carrying out the Assistant Administrator's responsibilities. This section also creates a staff within REA to assist REA borrowers with new rural economic development efforts.

*Section 121. Deferment of payment on economic development loans.*

This section authorizes REA to provide an incentive to rural electric and telephone systems to make investments in community and economic development projects.

REA borrowers may receive a deferment of their repayment of loans in an amount not in excess of 50 percent of the cost of the development project made by such REA borrower. Instead of making a required payment on time, the borrower can make a series of installment payments to pay that required payment over 5, or 10, years time, without paying interest and beginning on the date of deferment. The full amount of principal owed still must be paid.

However, to qualify for this deferment the borrower shall make a cushion of credit payment in an amount equal to the amount of the payment deferred. Under existing law, such borrowers earn 5 percent interest on such "cushion of credit" payments.

The difference between the zero percent interest at which the borrower repays the deferred loan payment and the 5 percent rate at which it earns interest on its "cushion of credit" payment constitutes the Federal incentive provided to the borrower.

There is a ceiling put on the amount of funds which can be deferred under this section. The total amount of deferments in any fiscal year cannot exceed 5 percent (3 percent in fiscal years 1990 through 1993) of the total payments received during the fiscal year from all REA borrowers on direct and insured loans made under the Rural Electrification Act.

*Section 122. Water and waste facility financing*

The Secretary may use up to 10 percent of the total amount of insured REA loans (or $40 million, whichever is less) to make loans to REA borrowers to provide water or waste disposal services in certain circumstances.

*Priority.*—In reviewing such loan applications the Secretary shall, among other factors, consider—

(1) whether the loan is necessary to enable communities to comply with Federal or State environmental laws;

(2) whether the affected local residents, and the local governments, are in favor of the REA borrower providing such services in the area;

(3) the income, employment, and other characteristics of the area to be served;

(4) the degree of the water or sewer problems and the impact of solving those problems on enhancing the prospects for rural development; and

(5) whether the proposed projects will duplicate existing facilities.

Regarding this water and waste facility program, the Secretary shall determine whether the REA or the FmHA possesses greater expertise in the areas of utility accounting, utility management, financial analysis, and other aspects of utility operations and engineering.

Loans made under this section shall not exceed a 5 percent rate. The Secretary shall also establish a program to encourage private participation in lending for water and waste facilities, in conjunction with lending by the Secretary. The Secretary may reduce interest rates on these loans to REA borrowers if that is appropriate and will enable the borrower to also obtain private capital.

The authorization of appropriations for this program shall not exceed 10 percent of the amount authorized for all insured loans, or $40 million, whichever is less.

*Section 123. Rural economic development*

This section increases the rural development role of the REA Administrator and funds additional investments by REA borrowers in business "incubators."

The expanded role of the REA Administrator includes the following functions:

(1) provide advice and guidance to rural electric systems regarding the effective and prudent use of their existing authority to invest 15 percent of their total utility plant to assist rural America (authority is provided under section 312 of the REA Act);

(2) provide technical advice, troubleshooting, and guidance concerning the operation of programs that receive assistance under this Act and conduct pilot projects, as determined useful or necessary, and recommend specific rural development projects for rural areas;

(3) act as an information clearinghouse;

(4) provide information to rural electric and telephone borrowers on how they can apply for financial assistance, loans or grants from other Federal agencies and non-Federal sources for rural development efforts;

(5) promote local partnerships between REA borrowers and community organizations, States, counties, businesses, banks, and other entities, to promote the development of local communities;

(6) review the advice and recommendations of the Rural Educational Opportunities Board to be created by the "Rural Star Schools Act of 1989"; and

(7) administer a Rural Business Incubator Fund which will provide assistance, advice and capital to promote the creation and operation of additional rural small business incubators.

*Rural business incubator fund.*—This bill will create funding to be used by the REA Administrator to promote the creation of business incubators—physical facilities in which start-up businesses can share facilities, support staff, computer equipment, janitorial services, utility costs, or other overhead, and can receive technical assistance, financial advice, business planning services, or other support by the REA staff.

*Application for assistance.*—REA borrowers now operating business incubators (or those wanting to operate incubators), and meeting requirements set by the Administrator, may apply for grants or for reduced interest rate (not exceeding 5 percent) loans. The applications must contain an assurance that any incubator assisted will be operated not-for-profit and that any such incubator will assist businesses in graduating from the incubator and becoming a viable business entity in the community.

*Incubator funding by assisted businesses.*—Incubators receiving assistance under the Act shall, except as approved by the Administrator, require each tenant to share a portion of its profits, or share an increase in its net worth, under procedures established by the Administrator. When the incubator redeems those "profits," one-half of that amount shall be provided to the "Rural Business Incubator Fund" administered by REA, which is a revolving fund.

*Incubator funding by REA borrowers.*—The REA borrower establishing, or assisting, the incubator must purchase Capital Term Certificates equal to 10 percent of the grant, or 5 percent of the amount of the loan, provided by the Administrator. The Fund will return that capital, i.e., redeem the Certificates, to the REA borrower, over a 10-year period (returning 10 percent of principal per year), without any payment of interest.

*Incubator funding by Treasury.*—Subject to limitations in annual appropriations Acts, the Secretary of the Treasury shall purchase Capital Term Certificates issued by the fund, up to $10 million worth annually, until the total purchase equals $60,000,000. The Fund shall repay the Treasury the full amount of such purchases, without interest, beginning in the year 2000, and over a 10-year period in equal annual payments.

*Section 124. Promoting rural development by REA telephone borrowers*

Under the current lending arrangements with the Administrator, REA telephone borrowers are limited as to when they are allowed to pay dividends or otherwise distribute capital based on their net worth and other factors. Those current mortgages could interfere with REA telephone borrower ability to invest in community development under this bill. Section 124 provides that amounts invested by telephone borrowers in rural development efforts under this Act (subtitle C, Title I, or under sections 205, 206

and 207) shall not be considered as a dividend or distribution of capital by the REA.

## TITLE II—ENHANCING HUMAN RESOURCES

### *Purpose*

To use advanced telecommunications to improve educational opportunities in rural schools, and to improve rural health care and assist rural businesses.

### *Chief advantages*

Will provide increased educational opportunities for students living in rural areas, through telecommunications and computer links with educational centers and instructors. Also links, through telecommunications, rural hospitals and physicians to medical experts and advanced diagnostic medical equipment at distant teaching hospitals.

*Section 201–203. Purpose, goals, and definitions*

These sections set forth the purpose of the title (to assist rural schools, medical care providers, and businesses through improved telecommunications in rural areas), its goals, and technical telecommunications definitions.

*Section 204. Provisions relevant to star schools, medical link and business link*

This section sets forth requirements that apply to all three telecommunications sections (205, 206 and 207). Note, the Administrator of REA shall administer the "star schools" and "medical link" programs. The Secretary shall administer the "business link" program.

The Administrator of REA, or the Secretary, shall have 160 days after enactment of this Act to issue final regulations implementing these three programs, star schools, medical link and business link.

The Administrator, or the Secretary, shall expedite the approval of loan requests made by local phone exchanges for loans regarding one of those three telecommunications projects.

A priority shall be given for approving grants for projects in which telecommunications facilities can be used for more than one project.

*Right of first refusal to local phone company.*—The local telephone exchange must be offered the opportunity to provide the appropriate transmission facilities (such as fiber-optic cables, microwave towers or satellite links), if they can and will provide such facilities at competitive prices, needed for the star schools, medical link or business link project.

The affected exchanges will be given 10 days (after receiving notification of the project) to decide whether they are interested in doing the project. They will then have 120 days after they are notified about a project to complete their application for expedited loan funding from REA or the Secretary.

The REA Administrator, or the Secretary, will then have 45 days to agree to provide the needed loan funding, or to turn the applica-

tion down. (The REA Administrator, or the Secretary, is required to expedite the review of loan applications from local exchange carriers that wish to provide the new telephone service required by the project.)

Once an application has been approved by the Administrator, or the Secretary, the local phone exchange shall have 30 days to apply to the State telephone commission for permission to build the facilities.

After State approval, the local exchange shall have 250 days to have made substantial progress toward completing the telecommunication transmission facility.

*Section 205. Rural star schools educational opportunities program.*

Provide Federal grants through the Rural Electrification Administration to establish "star schools" programs in rural areas using whatever transmission technology (including microwave, satellite, or fiber-optics) is best suited to the area—to provide voice, video, computer, or data access by rural students to instructors or education, computer and job training programs.

*Eligible partnerships.*—To be eligible to receive grants to set up star schools programs, a partnership must be formed consisting of telecommunications corporations or REA borrowers and one or more educational institutions such as universities, land-grant colleges, or State education agencies.

REA shall provide grants for approved telecommunications equipment needed by the partnerships for each approved project, at up to 100 percent of cost. Also, if the local phone exchange does not want to provide the telecommunications transmission facilities, or will not install those facilities at competitive costs, grant money can be provided directly to the partnerships for them to fund those facilities, at up to 100 percent of cost.

*Rural educational opportunities board.*—Create a nine member advisory board to promote star schools programs, coordinate activities with universities, states, businesses and rural schools and make recommendations to the Administrator of REA on who should receive star schools grants.

*Star schools funds.*—Authorize appropriations so that REA can provide assistance of up to $10 million in FY 1990, $20 million in FY 1991, $25 million in FY 1992, and $30 million in each of fiscal years 1993 and 1994.

Not less than 25 percent of the funds appropriated under this section shall be used to fund instructional programming under approved plans. Partnerships shall review offers to supply such programming from entities that provide such programming, including offers from the National Rural Telecommunications Cooperative.

*Section 206. Rural Medical Link Telecommunications Program*

This program is designed to improve medical information transmission, speed-up diagnostic analyses, improve rural medical care and increase the ability of rural hospitals, primary care facilities and physicians to be electronically linked to teaching hospitals, advanced medical centers, or physician specialists.

*Medical link fund.*—Authorize appropriations of $10 million for fiscal year 1990, and $20 million for each of fiscal years 1991

through 1994. The funds in this account may be used by the Administrator of REA to provide grants to hospitals, primary care centers, or physicians in nonmetropolitan counties to create or improve telecommunications links to improve the medical care provided in rural hospitals. Up to 100 percent of the costs of the project could be covered.

REA will be required to conduct state-wide outreach or informational efforts to ensure that rural hospitals, primary care centers and physicians know about this program and know that they may apply. (Rural areas not served by current REA telephone or electric borrowers are eligible for assistance under this section.)

*Section 207. Rural Business Link Telecommunications Program*

This section allows the Secretary to enhance rural business telecommunications links for marketing, product ordering, inventory management and related purposes. The section authorizes appropriations of $5 million in 1990, $10 million in each of fiscal years 1991 through 1994, for these purposes.

These funds are available to not-for-profit partnerships of small businesses to establish business communications or computer centers where small businesses, or those wishing to start small businesses, may use or share advanced communications, data processing, computer, and related telecommunications or computer equipment. These partnerships can receive grants from the Secretary for up to 50 percent of the costs of the telecommunications equipment used in the project.

USDA will be required to conduct informational efforts to advise businesses located in rural areas concerning this business links program. (Rural areas not served by current REA telephone or electric borrowers are eligible for assistance under this section.)

## TITLE III—FOCUS ON RURAL AMERICA BY THE DEPARTMENT OF AGRICULTURE

### *Purpose*

This title is designed to improve the effectiveness of Extension Service efforts regarding providing business development, business management, and computer technology instruction in rural America. Improves USDA coordination of rural development efforts.

### *Chief advantage*

Helps to make the Extension Service more useful in rural areas and will assist rural businesses and make them more competitive.

*Section 301. Extension Service*

Amend Title V of the Rural Development Act of 1972 (7 U.S.C. 2651, et seq.) to offer States or counties the opportunity to hire specialists for their Cooperative Extension Service staff to provide economic development assistance in the areas of new business creation, advanced telecommunications, business management and/or computer operations, financial planning and technical assistance. Counties (or States) could decide which types of specialists they wanted, if any, within certain Federal limits.

*Financial incentives.*—As an added incentive, the Federal government will pay 60 percent of the salaries for these new positions and the state (or local government) would pay the remaining 40 percent. 1,890 colleges, including Tuskegee University, will not be required to provide any local match.

*Authorization of appropriations.*—There are authorized to be appropriated $5 million in fiscal year 1990, $10 million in 1991, $15 million in fiscal year 1992, and $20 million in subsequent fiscal years.

*Section 302. Rural development assistance information and availability*

The Secretary of Agriculture shall establish a program to study economically distressed counties (low per capita income or high rates of outmigration) and to report on their conditions and needs by September 30, of each of the fiscal years 1990 to 1993. The annual reports shall also explain any actions taken by the Secretary to allevivate the problems.

*Section 303. Report on coordination of rural development activities*

The Secretary shall make recommendations, by September 1, 1989, on how to improve the coordination of rural development activities by agencies within USDA (Farmers Home Administration, Forest Service, Soil Conservation Service, Agricultural Research Service, Rural Electrification Administration, Extension Service, Agricultural Cooperative Services, Office of Transportation, and Agricultural Stabilization and Conservatoin Service).

*Section 304. Report on data processing feasibility in rural areas*

Not later than 90 days after enactment, the Secretary shall conduct a study that assesses the data processing functions administered by the Secretary and which determines whether they can be conducted more economically in rural areas. The final report on this study is due within 270 days of enactment. $250,000 is authorized to be appropriated for this study and report.

## TITLE IV—RURAL BUSINESS AND EMERGENCY ASSISTANCE

### *Purpose*

This title allows the Secretary to provide grants to benefit rural communities to improve business opportunities. Also, the Secretary is authorized to make emergency short-term loans to assist small towns or communities that need emergency financing until they can borrow through normal channels.

### *Chief advantage*

Assists rural communities to improve their ability to attract or retain businesses.

*Section 401. Local technical assistance grants*

Authorizes $7.5 million per fiscal year for grants to be issued by the Secretary of Agriculture to States, counties, towns, regional or-

ganizations, nonprofit community development corporations, or the like, in order to:

Identify and analyze business opportunities (including export markets);

Provide training and technical assistance to prospective entrepreneurs and managers;

Establish business support centers and otherwise assist in new business creation, local business financial planning, and enhance the capacity of local persons and entities to engage in sound business activities; and

For regional, community, and local economic development planning, coordination and leadership development.

*Section 402. Rural emergency assistance loans*

Requires the Secretary to establish a program to temporarily extend credit (up to two years) to needy towns or communities with fewer than 20,000 residents until they can get credit elsewhere. In other words, towns can get "bridge financing" to cope with emergency situations.

Applications for this emergency financing must be acted upon within 31 days. No town can receive more than $50,000 in these bridge loans. The Secretary must assist such borrowers in obtaining permanent financing through existing Farmers Home Administration programs to enable the community to make the balloon payment, if any such payment is required. There are authorized to be appropriated $2.5 million in fiscal year 1990, and $5 million in each subsequent fiscal year, for this lending program.

## TITLE V—NATIONAL RURAL INFORMATION CENTER CLEARINGHOUSE

*Section 501. National Rural Information Center Clearinghouse*

The Secretary shall maintain, within the National Agricultural Library, the National Rural Assistance Information Center Clearinghouse to: distribute information and data to any industry, organization, or governmental agency, on request, about federal, state or local programs regarding programs assisting rural America, including information on job training, education, health care, and economic development programs. $500,000 is authorized to be appropriated for fiscal years 1990 through 1994 for this center.

## TITLE VI—WATER AND SEWER ASSISTANCE

### *Purpose*

Provide emergency grants to communities that suffered severe water related problems because of drought conditions in 1988 or 1989, and increase the authorization of appropriations for water and waste facility grants for small communities.

### *Chief advantage*

Assists communities to comply with the Safe Drinking Water Act and the Water Pollution Control Act.

*Section 601. Water and waste facility grants*

Increases the current Farmers Home Administration grant program to help needy communities regarding their drinking water and waste facility systems. The section increases the authorization levels to $194,900,000 for each of the next two fiscal years, and then to $204,900,000 for each fiscal year after 1991. The current grant authorization level is $154,900,000.

*Section 602. Emergency Community Water Assistance Grant Program*

Requires the Secretary to establish an emergency grant program to address severe community water problems, and to assist communities in complying with the Federal Water Pollution Control Act and the Safe Drinking Water Act. $35 million in fiscal year 1990, and $10 million in fiscal year 1991, would be authorized to be appropriated for this program.

The maximum grant would be $75,000 for repairs to existing systems, or $500,000 where necessary to secure water supplies because of the drought (a significant decline in the quantity or quality of water).

*Section 603. Sewer and water lending by banks for cooperatives*

The banks for cooperatives of the Farm Credit System will be authorized to lend to small communities (the same entities to which the Secretary can make water and waste facility loans) for improvements, repairs and new construction regarding their water and waste systems.

*Section 604. Rural waste water treatment circuit rider grant program*

Requires the Farmers Home Administration to create a national rural waste water circuit rider grant program modeled after the existing National Rural Water Association circuit rider program for drinking water. Under this section, $4 million is authorized to be appropriated in each fiscal year to carry out this program.

## TITLE VII—MISCELLANEOUS

*Section 701. Monitoring the economic progress of rural America*

Expand the data collection efforts of the Bureau of the Census to gather statistically significant data on the changing condition of rural America, including data on rural employment, poverty, income and the rural labor force. $1 million is authorized to be appropriated for each fiscal year for these purposes.

The Bureau shall, to the maximum extent practicable, employ residents of rural counties for these expanded rural data collection efforts in fiscal year 1990.

*Section 702. Historic preservation requirements*

The Secretary of the Interior shall establish regulations concerning Federal projects funded under rural development efforts, regarding the preservation of historic properties and historical and archaeological data.

*Section 703. Loan rates applicable to health care and related facilities*

Requires the Farmers Home Administration to establish interest rates charged to communities for loans (issued under the community facilities loan program) for health care facilities to be based solely on the income of the area to be served.

*Section 704. Assistance to communities dependent on natural resources*

This section provides an additional $10 million for the Reforestation Trust Fund, and subject to appropriation, requires that portion of the fund be used for economic diversification assistance to communities which are dependent to a significant degree upopn Forest Service resource management decisions for their local economic activity.

*Section 705. Assisting distressed rural hospitals and health care facilities*

Requires the Secretary of Agriculture to establish a program to allow for the restructuring of delinquent loans made to rural hospitals (under the Farmers Home Administration community facilities lending program) so long as the Administration is better off restructuring the debt than foreclosing on it.

*Section 706. Rural development research assistance*

The Secretary shall create a competitive grants a program to land-grant colleges, research foundations and centers established by land-grant colleges, state agricultural experiment stations, and other colleges and universities that have demonstrable capabilities in rural development research. The grants shall cover research to improve economic competitiveness and diversification, support strategic planning, and improve human resources and the data base for rural development decisionmaking. $2 million is authorized to be appropriated in each fiscal year for this section.

*Section 707. Waiting lists for certain USDA loans*

The Secretary is required to keep waiting lists for business and industrial loan applications and not reject such applications solely because of lack of funding.

*Section 708. Priority for rural areas in certain construction projects*

The Administrator of the General Accounting Office shall issue regulations to assure that each executive agency head gives equal consideration to rural areas in determining the location of new Federal buildings.

*Section 709. Rural set-asides in Federal formula funding*

Each appropriate Federal agency head, regarding any program under which Federal funds are allocated by a formula to States, shall be required to coordinate with the Secretary of Agriculture in better assisting rural areas to participate and benefit in those programs.

*Section 710. Analysis by Office of Technology Assessment*

The OTA shall assess the potential for creating a national data bank which can be accessed by personal computer.

*Section 711. Sense of Congress concerning toll rate averaging*

This section sets forth a sense of Congress that toll rate averaging shall be defined as the cornerstone of universal service and that such policy shall be maintained.

## TITLE VIII—EFFECTIVE DATE AND IMPLEMENTATION

*Section 801. Effective date and implementation*

Unless otherwise stated this Act is effective on October 1, 1989. Final regulations implementing the rural partnerships investment program (subtitle A, of Title I) shall be issued by March 30, 1990. Final regulations implementing the REA borrower water and waste facility program shall be issued not later than 160 days after enactment of this Act.

## COST ESTIMATE

### CONCURRENT RESOLUTION ON THE BUDGET

Chairman Leahy, and Senator Lugar, the ranking Minority member on the Agriculture committee, together with thirty other Members wrote a letter to the Chairman of the Budget Committee, Senator Sasser, requesting that the budget resolution include up to $500 million for a bipartisan, multi-Committee, rural development effort.

The Senate budget committee approved a resolution which assumed a budget authorization of $300 million, and approved outlays of over $100 million, for fiscal year 1990 for rural development.

The House budget resolution contained report language on the importance of legislative rural development efforts.

The House receded and the "Concurrent Resolution on the Budget—Fiscal Year 1990" (H.R. Rept. 101-50, May 15, 1989) assumed a budget authorization of $300 million, and outlays of over $100 million, for fiscal year 1990. The "Rural Partnerships Act of 1989", as reported by Chairman Leahy, is within the limits provided by the budget resolution.

A colloquy between Chairman Sasser and Chairman Leahy further clarified this matter. (Cong. Rec., daily ed., S 4855, May 4, 1989.)

In accordance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee has included the cost estimate provided by the Congressional Budget Office.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
*Washington, DC, July 11, 1989.*

Hon. PATRICK J. LEAHY,
*Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for S. 1036, the Rural Partnerships Act of 1989.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

ROBERT D. REISCHAUER,
*Director.*

CONGRESSIONAL BUDGET OFFICE, COST ESTIMATE

1. Bill number: S. 1036.

2. Bill title: Rural Partnerships Act of 1989.

3. Bill status: As ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry, June 14, 1989.

4. Bill purpose: S. 1036 would authorize funding of about $300 million per year through fiscal year 1994 for the creation of new programs and the expansion of existing programs to promote rural economic development. This bill would establish a Rural Business Investment Fund to provide seed money to state and local revolving funds to assist rural businesses, as well as a Rural Capital Access Program to provide incentives for private banks to lend to rural businesses. S. 1036 would also expand the role of the Rural Electrification Administration (REA) in rural economic development grants and loans, and in the financing of water and waste facilities, business incubators and telecommunications.

The bill would also expand or revise a number of existing programs to promote rural development. It would increase the involvement of the Extension Service of the Department of Agriculture (USDA), the National Agriculture Library and the Bureau of the Census in collecting and disseminating information on rural development. It would authorize appropriations for an emergency water and water program, and a rural water and waste circuit rider program, and would provide additional funds to the Reforestation Trust Fund.

5. Estimated cost to the Federal Government:

[By fiscal year, in millions of dollars]

| Summary table | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Direct spending: | | | | | |
| Estimated budget authority | | 1 | 1 | 2 | 2 |
| Estimated outlays | | 1 | 1 | 2 | 2 |
| Authorizations: | | | | | |
| Estimated budget authority | 309 | 310 | 309 | 315 | 291 |
| Estimated outlays | 46 | 136 | 219 | 263 | 258 |
| Total: | | | | | |
| Estimated budget authority/authorization level | 309 | 311 | 310 | 317 | 293 |
| Estimated outlays | 46 | 137 | 220 | 265 | 260 |

The costs of this bill fall within budget functions 300, 350, 370 and 450.

*Basis of estimate:* This estimate assumes enactment of the bill by October 1, 1989. Further, it assumes that the full amounts authorized will be appropriated prior to the beginning of each fiscal year.

*Title I:* Subtitle A of Title I would create a Rural Business Investment Fund under which a Rural Partnerships Investment Board would provide grants to state and local organizations to operate revolving funds to assist rural businesses. The bill would authorize the appropriation of $300 million over four years for this program. State and local revolving funds would draw on these funds as needed to provide loans, guarantees or investments in local enterprises.

Subtitle B of Title I would create a Rural Capital Access Program within USDA. This program would provide incentives to banks to lend to rural businesses. When originating a loan, the bank and the borrower would contribute between 1.5 percent and 3.5 percent of the loan to the bank's subaccount within the Rural Capital Access Fund. Both of these contributions would be matched by the federal government. In the case of default, funds in these accounts would be used to cover losses. S. 1036 would authorize the appropriation of $165 million over five years for this program. No outlays would occur until loans began to default.

Subtitle C of Title I would create a new role for the REA in rural development. S. 1036 would create an Assistant Administrator for Rural Devleopment within REA, as well as a new unit to provide technical assistance to electric and telephone borrowers in implementing the Act. The bill would expand REA's existing rural development grant program, and authorize loans to REA borrowers to finance waste and water systems. It would also provide funds to enable REA borrowers to create small business incubators, which provide common facilities and services as low cost to encourage the development of small business.

The following table summarizes the budget impact of the provisions of Title I.

[By fiscal year, in millions of dollars]

| Title I | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| AUTHORIZATION | | | | | |
| Rural Partnerships Investment Board: | | | | | |
| Authorization level | 100 | 86 | 67 | 47 | ..... |
| Estimated outlays | 10 | 44 | 72 | 78 | 57 |
| Rural Capital Access Program: | | | | | |
| Authorization level | 15 | 20 | 30 | 40 | 60 |
| Estimated outlays | −8 | −16 | −12 | −2 | −5 |
| Assistant Administrator and Technical Assistance Unit in REA: | | | | | |
| Estimated authorization level | 3 | 4 | 4 | 4 | 4 |
| Estimated outlays | 3 | 3 | 4 | 4 | 4 |

[By fiscal year, in millions of dollars]

| Title I | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Payments from Cushion of Credit Funds: | | | | | |
| Estimated budget authority | 5 | 7 | 10 | 11 | 14 |
| Estimated outlays | 3 | 7 | 9 | 11 | 13 |
| Water and Waste Financing: | | | | | |
| Authorization level | 40 | 40 | 40 | 40 | 40 |
| Estimated outlays | 2 | 10 | 21 | 27 | 31 |
| Rural Economic Development (Incubator Fund): | | | | | |
| Estimated budget authority | 10 | 10 | 10 | 10 | 10 |
| Estimated outlays | 2 | 7 | 8 | 9 | 12 |
| Total—Title I: | | | | | |
| Estimated authorization level | 173 | 167 | 161 | 152 | 128 |
| Estimated outlays | 12 | 55 | 102 | 127 | 112 |

## TITLE II

Title II of S. 1036 would create three programs to stimulate the use of telecommunications in rural schools, health facilities and businesses. All three programs would be administered by the Administrator of the REA, and would provide grants to partnerships between REA borrowers or other telecommunications companies or organizations and education, health or business groups.

Total authorization levels and outlays associated with this title are as follows:

[By fiscal year, in millions of dollars]

| Title II | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Authorization level | 25 | 50 | 50 | 60 | 60 |
| Estimated outlays | 3 | 20 | 39 | 48 | 57 |

## TITLE III

Title III would authorize a number of programs within USDA to generate and disseminate information regarding rural America and rural development efforts and possibilities. Funds would be authorized to create a rural development program within the Extension Service, and to study economically distressed countries, provide informaiton on rural development programs, report on the coordination of rural development activities within the federal government, and consider the feasibility of performing USDA data processing functions in rural areas.

Total estimated authorization levels and outlays associated with this title are as follows:

[By fiscal year, in millions of dollars]

| Title III | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Extension Service: | | | | | |
| Authorization level | 5 | 10 | 15 | 20 | 20 |
| Estimated outlays | 4 | 9 | 14 | 19 | 20 |

[By fiscal year, in millions of dollars]

| Title III | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Various Reports on Rural Development: | | | | | |
| Estimated authorization level | 2 | 2 | 2 | 2 | 2 |
| Estimated outlays | 2 | 2 | 2 | 2 | 2 |
| Total—Title III: | | | | | |
| Estimated authorization level | 7 | 12 | 17 | 22 | 22 |
| Estimated outlays | 6 | 11 | 16 | 21 | 22 |

## TITLE IV

Title IV would authorize the Secretary of Agriculture to provide grants to public or private nonprofit organizations to provide technical assistance to businesses, establish business support centers, identify market opportunities or conduct community planning. The Secretary would also be authorized to provide loans to small communities to deal with emergency situations. These loans would be short-term loans that would subsequently be eligible for refinancing under other Farmers Home Administration (FmHA) programs.

Total authorization levels and outlays associated with this title are as follows:

[By fiscal year, in millions of dollars]

| Title IV | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Local Technical Assistance: | | | | | |
| Authorization level | 88 | 8 | 8 | 8 | 8 |
| Estimated outlays | 4 | 8 | 8 | 8 | 8 |
| Rural Emergency Assistance Loans: | | | | | |
| Authorization level | 3 | 5 | 5 | 5 | 5 |
| Estimated outlays | 2 | 4 | 3 | 0 | 0 |
| Total—Title IV: | | | | | |
| Authorization level | 11 | 13 | 13 | 13 | 13 |
| Estimated outlays | 6 | 12 | 11 | 8 | 8 |

## TITLE V

Title V would create a National Rural Information Center Clearinghouse within the National Agricultural Library.

Authorization levels and outlays associated with this title are as follows:

[By fiscal year, in millions of dollars]

| Title V | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Authorization level | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Estimated outlays | .4 | .5 | .5 | .5 | .5 |

## TITLE VI

Title VI would increase the authorization limit for rural water and waste grants, would create an emergency water assistance grant program and a waste water circuit rider program, and would authorize Farm Credit System banks to participate in lending for waste and water systems.

[By fiscal year, in millions of dollars]

| Title VI | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Waste and Water Facility Grants: | | | | | |
| Authorization level | 40 | 40 | 50 | 50 | 50 |
| Estimated outlays | 1 | 7 | 17 | 30 | 39 |
| Emergency Community Water Assistance Grant Program: | | | | | |
| Authorization level | 35 | 10 | | | |
| Estimated outlays | 4 | 13 | 16 | 11 | 2 |
| Rural Waste Water Treatment Circuit Rider Grant Program: | | | | | |
| Authorization level | 4 | 4 | 4 | 4 | 4 |
| Estimated outlays | 3 | 4 | 4 | 4 | 4 |
| Total—Title VI: | | | | | |
| Authorization level | 79 | 54 | 54 | 54 | 54 |
| Estimated outlays | 8 | 24 | 37 | 45 | 45 |

The rural waste and water grants program received appropriations of $40 million less than its current authorization level in fiscal year 1989. This analysis assumes that the additional funds authorized in this bill would be appropriated.

## TITLE VII

Title VII would require the Bureau of the Census to collect more information on rural areas, would provide additional funds to the Reforestation Trust Fund, and would alter the determination of loan rates on FmHA loans to rural health care facilities. This title would also authorize grants for research on rural development issues, and would require a study by the Office of Technology Assessment (OTA) on the feasibility of on-line library systems in rural areas.

Section 703 would result in direct spending by changing the way in which FmHA determines interest rates on loans to rural health care facilities. This change would make borrowers eligible for lower rates, on average, and thus would reduce interest receipts by $1 million to $2 million a year, beginning in 1991. All other spending provisions of Title VII would require appropriation action.

The budget impact of Title VII is summarized in the following table.

[By fiscal year, in millions of dollars]

| Title VII | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Direct spending: | | | | | |
| Loan rates applicable to health care and other facilities: | | | | | |
| Estimated budget authority | | 1 | 1 | 2 | 2 |
| Estimated outlays | | 1 | 1 | 2 | 2 |

[By fiscal year, in millions of dollars]

| Title VII | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Authorizations: | | | | | |
| Census Bureau data collection: | | | | | |
| Estimated budget authority | 1 | 1 | 1 | 1 | 1 |
| Estimated outlays | 1 | 1 | 1 | 1 | 1 |
| Reforestation Trust Fund: | | | | | |
| Estimated budget authority | 10 | 10 | 10 | 10 | 10 |
| Estimated outlays | 8 | 10 | 10 | 10 | 10 |
| Rural development research assistance: | | | | | |
| Estimated budget authority | 2 | 2 | 2 | 2 | 2 |
| Estimated outlays | 1 | 2 | 2 | 2 | 2 |
| Total—Title VII: | | | | | |
| Estimated budget authority/authorization level | 13 | 14 | 14 | 15 | 15 |
| Estimated outlays | 10 | 14 | 14 | 15 | 15 |

No funds are authorized for the OTA study; however, CBO estimates that the cost of such a study would be $300,000 in fiscal year 1990.

6. Estimated cost to state and local governments: State and local governments may participate in the Rural Partnerships Investment Program and the Rural Capital Access program, providing administrative support or matching funds. This participation would be voluntary. Also, states choosing to participate in the new rural development component of the Extension Service would pay 40 percent of the cost of the program. State contributions for this purpose would reach $13 million per year by 1993, assuming appropriation of the authorized amount.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Marta Morgan.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director).

## Regulatory Impact Evaluation

In compliance with paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the Committee made the following evaluation of the regulatory impact which would be incurred in carrying out S. 1036.

The Rural Partnerships Investment Board, created by the Rural Partnerships Act of 1989 (Act), will be responsible for developing rules and procedures for the conduct of its business. In addition to internal rules and procedures, the Board will establish rules and regulations implementing subtitle A of Title I of the Act, and shall have the power to cancel, revoke or suspend lines of credit in accordance with such rules and regulations. The Board may invoke judicial action in the enforcement of such rules and regulations.

The Board shall issue regulations regarding: application procedures, how Federal funds are to be matched, defining reasonable operating expenses and very distressed rural areas, the interest charged on funds returned to the Treasury Department, a special program for Indian reservations, and other matters.

The Secretary of Agriculture and the Administrator of the Rural Electrification Administration (REA) are charged with the development, administration and regulation of new programs. The Administrator shall appoint an Assistant Administrator for Economic Development of the REA who shall be responsible for the administration of REA programs not directly related to electric or telephone service. The Administrator shall also establish a technical assistance unit to provide advice and guidance to borrowers concerning community and economic development activities permitted under this Act.

The Administrator may establish and administer various pilot projects and recommend specific development projects for rural areas, and administer a Rural Business Incubation Fund, to provide capital to "business incubator" programs.

The Secretary of Agriculture shall establish a program known as the "Rural Capital Access Program" through which the Secretary shall provide incentives to lending institutions to encourage such institutions to provide new loans to certain businesses in rural areas. The Secretary shall issue such rules as are appropriate to implement this program including application procedures and record keeping requirements.

The Administrator or the Secretary is authorized to issue grants to enhance the telecommunications capacity in rural areas to improve edcuational and business opportunities and to improve rural medical care. The Administrator shall establish procedures to assure that requests for loans from local exchange carriers to provide new telecommunications facilities, to provide service at competitive costs regarding such grants, receive expedited consideration and determination.

The Administrator is specifically authorized to make grants to telecommunications partnerships to obtain telecommunications resources to improve rural education. A "Rural Educational Opportunities Board" shall be established as an advisory board that will review applications for such grants, provide advice and guidance to grant recipients, make recommendations, and evaluate the quality and effectiveness of rural distance learning programs made available by such grants.

The Secretary shall also establish a program, to be administered by the Administrator, to make grants for the procurement of telecommunications terminal equipment and other related equipment for hospitals, primary care centers or physicians, under the procedures established by this Act. The Secretary shall additionally establish a program to make grants available, as determined appropriate and approved by the Secretary, to assist rural businesses through the establishment of telecommunications business centers.

The Secretary shall establish an Extension Service rural economic and business development program to enable States or counties to assist individuals in creating new businesses, or to assist existing businesses.

The Secretary shall make grants to States, counties, towns, regional organizations, and other public bodies, nonprofit private community development corporations, or other like entities for the procurement of technical assistance for management training, market research and other assistance.

The Secretary shall establish and implement a program to make emergency loans for the benefit of any rural town or city that needs temporary financing to correct emergency conditions or situations until funding can be found elsewhere.

The Secretary shall maintain, within the National Agricultural Library, in coordination with the Extension Service, a National Rural Information Center Clearinghouse to provide and distribute information and data about available financial, technical and human services assistance.

The Secretary shall also provide grants to assist the residents of rural areas and small communities to secure adequate quantities of safe water and to reduce water pollution. The Secretary shall make loans to borrowers under Title III of the Rural Electrification Act of 1936, to enable such borrowers to provide water and waste facility services in areas served by such borrowers.

The Administrator of the Farmers Home Administration shall establish a national rural waste water circuit rider grant program that shall be modeled after the existing National Rural Water Association rural water circuit rider program that receives funding from the Farmers Home Administration, and administrated in accordance with the provisions of this Act.

The Secretary of the Interior, in consultation with the Assistant Secretary and the National Trust for Historic Preservation in recognition of its charter duties, shall prescribe and implement regulations concerning projects funded under this Act and the need to protect and preserve certain historic sites and findings.

The Secretary shall establish loan rates for health care and related facilities that shall be based solely on the income of the area to be served, in accordance with this Act, and such rates shall be otherwise consistent with the provisions of the Consolidated Farm and Rural Development Act.

The Secretary shall establish and implement a program that is similar to the program established under section 353 of the Consolidated Farm and Rural Development Act, except that the debt restructuring and loan servicing procedures shall apply to delinquent community facility program loans (rather than delinquent farmer program loans) made by the Farmers Home Administration to a hospital or health care facility under section 306(a) of the Consolidated Farm and Rural Development Act.

The Secretary shall establish and carry out a program to award competitive grants to land-grant colleges and universities and other research entities as defined by this Act, to carry out research to study rural development programs and policies. There are authorized to be appropriated $2 million in each fiscal year for this purpose.

The section-by-section summary found in this report also contains statements regarding the regulatory impacts of the "Rural Partnerships Act of 1989" and should be considered part of this regulatory impact statement.

## ADDITIONAL VIEWS OF MR. HARKIN

### RURAL PARTNERSHIPS ACT OF 1989

I am pleased that this important rural development legislation is moving forward. Overall, I believe there is much good in this legislation and I give it my strong support. I feel obliged, however, to point out one aspect of the bill with which I strongly disagree.

Section 122 of the bill provides for up to $40 million anually for loans to eligible borrowers of the Rural Electrification Administration to enable them to provide water and waste facility services in areas served by such borrowers. When the bill was introduced, and until very shortly before markup, it provided specifically that the Rural Electrification Administration would be given responsibility for the program. As a result of some last minute negotiations, however, the bill as reported by the Committee gives responsibility for administering the loans to the Secretary of Agriculture, who would then choose to delegate the responsibility to either the REA or to the Farmers Home Administration. This change weakens the program substantially, and I therefore am opposed to it.

The Rural Electrification Administration is the best conduit for connecting the new loan program with the network of local rural electric cooperatives and increasing their involvement in rural economic development. The REA has much more experience and expertise than FmHA in utility lending, utility accounting, utility management and financial analysis, and other matters relating to utility operations. The RECs have more than 50 years of experience in dealing with the REA, their primary lender and the agency that virtually created them through its programs of technical assistance and financing.

FmHA, by contrast, has never encouraged the involvement of the RECs in its programs, and has in fact actively discouraged such involvement. FmHA is already carrying a very heavy load of programs and should not be burdened with administering another program.

Finally, placing administration of the program within REA will not result in duplicating existing federal water and waste water efforts. Section 122 establishes several mechanisms for avoiding such duplication, and specifically requires coordination with existing FmHA programs.

## CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill S. 1036, as ordered reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

### RURAL ELECTRIFICATION ACT OF 1936

# TITLE I—RURAL ELECTRIFICATION

* * * * * * *

SEC. 11.

In order to carry out the provisions of this Act the Administrator may accept and utilize such voluntary and uncompensated services of Federal, State, and local officers and employees as are available, and he may, subject to the civil-service laws, appoint attorneys, engineers, experts, and such other officers and employees as he may find necessary and prescribe their duties. The Administrator is authorized, from sums appropriated pursuant to section 6, to make such expenditures (including expenditures for personal services; supplies and equipment; lawbooks and books of reference; directories and periodicals; travel expenses; rental at the seat of government and elsewhere; the purchase, operation, or maintenance of passenger-carrying vehicles; and printing and binding) as are appropriate and necessary to carry out the provisions of this Act.

*SEC. 11A. ASSISTANT ADMINISTRATOR FOR ECONOMIC DEVELOPMENT.*

*(a) APPOINTMENT.—The Administrator shall appoint an Assistant Administrator for Economic Development (hereinafter referred to in this Act as the "Assistant Administrator") to carry out the programs of the Rural Electrification Administration concerning the involvement of rural electric and telephone systems in community and economic development.*

*(b) APPOINTMENT FACTORS.—In appointing an Assistant Administrator, the Administrator shall consider the degree to which candidates possess—*

*(1) knowledge of and experience in community and economic development programs and strategies;*

*(2) the ability to develop and manage the specific programs and responsibilities of this office, as described in this Act;*

*(3) the ability to work effectively with officials of Federal, State, and local governments, private, and other officials of development programs, as well as with borrowers of the Rural Electrification Administration and their associations; and*

*(4) other factors as determined by the Administrator to be important in the successful execution of the responsibilities of the office of Assistant Administrator.*

*(c) RESPONSIBILITIES AND STANDING.—The Assistant Administrator shall be—*

*(1) responsible, unless otherwise provided by law, for the administration of the programs of the Rural Electrification Administration not directly related to the providing of electric or telephone service; and*

*(2) compensated at a salary level that is not less than that of the Assistant Administrator for Electric and the Assistant Administrator for Telephone of the Rural Electrification Administration.*

*(d) FUNDING.—Not less than 10 percent nor more than 20 percent of the salaries and expenses provided to the Administration during any fiscal year shall be used by the Assistant Administrator in carrying out the responsibilities of the Assistant Administrator as described in subsection (c), and such amounts shall remain available until expended.*

*(e) TECHNICAL ASSISTANCE UNIT.—The Administrator shall establish a technical assistance unit to provide advice and guidance to borrowers concerning community and economic development activities permitted under this Act. From the amounts made available to the Assistant Administrator under subsection (d), not less than 1 percent of the salaries and expenses of the Rural Electrification Administration shall be made available to such technical assistance unit established in this section.*

SEC. 12.

*(a)* The Administrator is authorized and empowered to extend the time of payment of interest or principal of any loans made by the Administrator pursuant to this chapter: *Provided, however,* That with respect to any loan made under section 4 or section 201, the payment of interest or principal shall not be extended more than five years after such payment shall have become due, and with respect to any loan made under section 5, the payment of principal or interest shall not be extended more than two years after such payment shall have become due: *And provided further,* That the provisions of this section shall not apply to any obligations or the security therefor which may be held by the Reconstruction Finance Corporation under the provisions of section 3.

*(b)(1) The Administrator shall permit any borrower to defer the payment of principal and interest on any insured or direct loan made under this Act under circumstances described in this subsection, notwithstanding any limitation contained in section 12(a), except that such deferment shall not be permitted based on the determination by the Administrator of the financial hardship of the borrower.*

*(2)(A) In the case of deferments made to enable the borrower to provide financing to local businesses, the deferment shall be repaid in equal installments, without the accrual of interest, over the 60-month period beginning on the date of the deferment, and the total amount of such payments shall be equal to the amount of the payment deferred; and*

*(B) in the case of deferments made to enable the borrower to provide community development assistance, technical assistance to businesses, or similar community, business, or economic development assistance, the deferment shall be repaid in equal installments, without the accrual of interest, over the 120-month period beginning on the date of the deferment, and the total of amount of such payments shall be equal to the amount of the payment deferred; and*

*(3)(A) A borrower may defer its debt service payments only in an amount equal to an investment made by such borrower in community or economic development projects.*

*(B) The amount of the deferment shall not exceed 50 percent of the cost of a community or economic development project financed under paragraph (2).*

*(C) The total amount of deferments under this subsection during each of the fiscal years 1990 through 1993 shall not exceed 3 percent of the total payments received during such fiscal year from all borrowers on direct and insured loans made under this Act and shall not exceed 5 percent of such total payments in each subsequent fiscal year.*

*(D) At the time of a deferment, the borrower shall make a cushion of credit payment in an amount equal to the amount of the payment deferred. Such payment shall not be reduced by the borrower below the level of the unpaid balance of the payment deferred. Subject to limitations established in annual appropriations Acts, such cushion of credit amounts and any other cushion of credit and advance payments of any borrower shall be included in the interest differential calculation provided by section 313 of this Act.*

*(4) The Administrator shall undertake all reasonable efforts to permit the full amount of deferments authorized by this subsection during each fiscal year.*

* * * * * * *

## *TITLE V—RURAL ECONOMIC DEVELOPMENT*

***SEC. 501. ADDITIONAL POWERS AND DUTIES OF REA ADMINISTRATOR.***

*The Administrator shall—*

*(1) provide advice and guidance to electric borrowers under this Act concerning the effective and prudent use by such borrowers of the investment authority under section 312 to promote rural development;*

*(2) provide technical advice, troubleshooting, and guidance concerning the operation of programs or systems that receive assistance under this Act;*

*(3) establish and administer various pilot projects through electric and telephone borrowers that the Administrator determines are useful or necessary, and recommend specific rural development projects for rural areas;*

*(4) act as an information clearinghouse and conduit to provide information to electric and telephone borrowers under this Act concerning useful and effective rural development efforts that such borrowers may wish to apply in their areas of operation and concerning State, regional, or local plans for long-term rural economic development;*

*(5) provide information to electric and telephone borrowers under this act concerning the eligibility of such borrowers to apply for financial assistance, loans, or grants from other Federal agencies and non-Federal sources to enable such borrowers to expand their rural development efforts;*

*(6) promote local partnerships and other coordination between borrowers under this Act and community organizations, States, counties, or other entities, to improve rural development;*

*(7) review the advice and recommendations of the Rural Educational Opportunities Board as established under section 601(f); and*

*(8) administer a Rural Business Incubator Fund (as established under section 502) that shall provide technical assistance, advice, loans, or capital to business incubator programs or for the creation or operation of small business incubators in rural areas.*

***SEC. 502. RURAL BUSINESS INCUBATOR FUND.***

*(a) ESTABLISHMENT AND USE.—*

*(1) ESTABLISHMENT.—There is established in the Treasury of the United States a revolving fund to be known as the Rural Business Incubator Fund (hereinafter referred to in this title as the "Incubator Fund") to be administered by the Administrator.*

*(2) USE.—The Incubator Fund shall be used to made grants and reduced interest loans to electric and telephone borrowers under this Act of promote business incubator programs or for the creation or operation of business incubators is rural areas by such borrowers, and the rate of such loans shall not exceed the 5 percent rate as provided in section 305.*

*(3) BUSINESS INCUBATOR.—Any business incubator that receive assistance under this title shall be a facility in which small businesses can share premises, support staff, computers, software or hardware, telecommunications terminal equipment, machinery, janitorial services, utilities, or other overhead expenses, and where such businesses can receive technical assistance, financial advice, business planning services or other support. Business incubator programs that provide assistance of the type described in this paragraph shall be eligible for assistance under this title even when such programs do not involve the sharing of premises.*

*(b) APPLICATION FOR ASSISTANCE.—*

*(1) ELIGIBILITY TO SUBMIT.—Borrowers under this Act that operate existing business incubators or that desire to operate such incubators or business incubator programs, and that meet the requirements established by the Administrator for obtaining grants or reduced interest loans under this section, may submit applications as such time, in such form, and containing such information as the Administrator shall require, for such grants or loans.*

*(2) REQUIREMENTS.—Applications submitted under paragraph (1) shall, at a minimum—*

*(A) contain an assurance that any incubator established or operated pursuant to this section will be operated on a not-for-profit basis; and*

*(B) contain an assurance that it will be the policy of such incubator to encourage and assist businesses in graduating from the incubator and becoming viable business entities in the community and to inform participating businesses of this policy.*

*(3) REVIEW.—In reviewing applications for assistance, the Administrator shall consider—*

*(A) how effectively the incubator project will assist in the formation, growth, or improved efficiency of small businesses that will help diversify and develop the local economy; and*

*(B) the amount of local support likely to exist for the incubator and the businesses to be assisted by such incubator, taking into account local contributions of business, financial, technical, technological or managerial expertise, and contributions of equipment or materials, local financial assistance, and other factors as determined appropriate by the Administrator.*

*(c) FUNDING OF LOCAL INCUBATORS.—*

*(1) BY BUSINESSES UTILIZING INCUBATOR.—*

*(A) IN GENERAL.—Business incubators that receive assistance under this section shall, to the extent practicable and except as provided by the Administrator, require that each business entity that utilizes such incubator share with the Incubator Fund, on a percentage or other basis, as determined by the Administrator, a portion of the benefit of any growth in profits, net worth, or other measure of income or growth that results during or because of such entity's entry into the incubator.*

*(B) CONTRIBUTION TO INCUBATOR FUND.—At such time as the business incubator receives revenues from a business entity as provided under subparagraph (A), such incubator shall pay an amount equal to 50 percent of such revenue to the Incubator Fund established under subsection (a).*

*(C) FLEXIBILITY.—In administering this paragraph, the Administrator shall provide substantial flexibility and assistance to incubators in order to ensure that a proper balance is achieved between—*

*(i) the objective that a business that benefits from an incubator should return a small portion of such benefit to the incubator for use in assisting other businesses and to the Incubator Fund established under subsection (a); and*

*(ii) the requirement that such payments by a business not impose an undue burden nor interfere with the purposes of this section.*

*(2) BY BORROWER ESTABLISHING INCUBATOR.—*

*(A) IN GENERAL.—A borrower that establishes or assists a business incubator under this section shall purchase Capital Term Certificates issued by the Incubator Fund in amounts equal to 10 percent of the amount of the grant, or 5 percent of the amount of the reduced interest loan, provided by the Administrator under this section.*

*(B) REDEMPTION OF CERTIFICATES.—Each calendar year for the 10-year period beginning on the date that a grant or reduced interest loan is provided under this section, the Administrator shall redeem an amount equal to 10 percent of the Capital Term Certificates purchased by the borrower under subparagraph (A), without any payment of interest.*

*(3) BY THE SECRETARY OF THE TREASURY.—*

*(A) IN GENERAL.—The Secretary of the Treasury shall, subject to limitations contained in annual appropriations Acts, purchase Capital Term Certificates issued by the Incubator Fund, and there are authorized to be appropriated amounts not to exceed $10,000,000 annually for such purchases until the total of such Capital Term Certificates shall equal $60,000,000.*

*(B) REDEMPTION OF CERTIFICATES.—Each calendar year for the 10-year period beginning on January 1, 2000, the Administrator shall redeem an amount equal to 10 percent of the Capital Term Certificates purchased by the Secretary of the Treasury under subparagraph (A), without any payment of interest.*

*(d) REPAYMENTS TO INCUBATION FUND.—All payments made on loans under this section, and all amounts provided under subsection (c), shall be placed in the Incubator Fund established by subsection (a) and shall be available to carry out the purposes of this section.*

*(e) FULL USE.—The Administrator shall undertake all reasonable efforts to make full use, during each fiscal year, of any funds contained in the Incubator Fund established under subsection (a), consistent with the requirement that the Incubator Fund redeem Capital Term Certificates as provided by subsection (c).*

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THE CONSOLIDATED FARM AND RURAL DEVELOPMENT ACT

## Subtitle A—Real Estate Loans

* * * * * * *

SEC. 306.

(a)[1] * * *

[2] The Secretary is authorized to make grants aggregating not to exceed $500,000,000 in any fiscal year to such associations to finance specific projects for works for the development, storage, treatment, purification, or distribution of wate or the collection, treatment, or disposal of waste in rural areas: *Provided,* That for fiscal years commencing after September 30, 1981, such grants may not exceed [$154,900,000 in any fiscal year] *$194,900,000 in each of fiscal years 1990 and 1991, and $204,900,000 in each of the succeeding fiscal years.* The amount of any grant made under the authority of this paragraph shall not exceed 75 per centum of the development cost of the project to serve the area which the association determines can be feasibly served by the facility and to adequately serve the reasonably foreseeable growth needs of the area. The Secretary shall fix the grant rate for each project in conformity with regulations issued by the Secretary that shall provide for a

graduated scale of grant rates establishing higher rates for projects in communities that have lower community population and income levels.

* * * * * * *

[(11) The Secretary may make grants, not to exceed $15,000,000 annually, to public bodies or such other agencies as the Secretary may select to provide rural development technical assistance, rural community leadership development, and community and areawide rural development planning.]

*(11)(A)(i) The Secretary may make grants, not to exceed $15,000,000 annually, to public bodies, private non-profit community development corporations, or such other agencies as the Secretary may select to enable such recipients*

*(I) to identify and analyze business opportunities, including opportunities in export markets, that will use local rural economic and human resources;*

*(II) to identify, train, and provide technical assistance to existing or prospective rural entrepreneurs and managers;*

*(III) to establish business support centers and otherwise assist in the creation of new rural businesses, the development of methods of financing local businesses, and enhancing the capacity of local individuals and entities to engage in sound economic activities; and*

*(IV) to conduct regional, community, and local economic development planning and coordination, and leadership development.*

*(ii) There are authorized to be appropriated to make grants under this subparagraph, $7,500,000 in each fiscal year.*

*(B)(i) The Secretary shall establish and implement a program to make loans for the benefit of any town or city that—*

*(I) has a population of less than 20,000 inidvidua!s within its outer boundaries; and*

*(II) is financially unable to obtain funds as quickly as needed to correct emergency conditions or situations needing urgent attention.*

*(ii) The Secretary shall promulgate regulations—*

*(I) targeting the program established under this subparagraph towards needy communities in rural areas;*

*(II) setting forth a definition of "emergency conditions or situations needing urgent attention"; and*

*(III) requiring that the Secretary approve or reject applications within 30 days of their receipt.*

*(iii) The Secretary shall limit the amount of loans provided to the same borrower under this subparagraph to $50,000, and the term of such loans shall not exceed 2 years.*

*(iv) The Secretary may respond to the credit needs of rural towns or cities eligible to participte in the program authorized under this subparagraph by making loans that are eligible for refinancing after the expiration of the 2-year period described in clause (iii), and payments under such loans may be set at a level that is at a sufficiently low level during such 2-year period so that the financially troubled town or city can participate in the program established under this subparagraph. The Secretary shall assist such borrowers*

*in obtaining financing through existing Farmers Home Administration programs so that such borrowers are able to pay the balance due on each loan at the end of such 2-year period.*

*(v) There are authorized to be appropriated $2,500,000 for fiscal year 1990, and $5,000,000 for fiscal year 1991 and for each subsequent fiscal year, to carry out the emergency lending program authorized by the program established under this subparagraph.*

* * * * * * *

***SEC. 306A. ADDITIONAL WATER AND WASTE FACILITIES PROGRAM.***

*(a) AUTHORITY.—*

*(1) IN GENERAL.—The Secretary shall make loans to individuals or entities who are borrowers under title III of the Rural Electrification Act of 1936 (7 U.S.C. 930 et seq.), (hereinafter referred to in this section as the "borrower") to enable such borrowers to provide water and waste facility services in areas served by such borrowers.*

*(2) PROGRAMS.—The loan program established by the Secretary under this section shall be in addition to any programs administered under title III of the Rural Electrification Act of 1936 (7 U.S.C. 930 et seq.) and section 306 of the Consolidated Farm and Rural Development Act (7 U.S.C 1926).*

*(b) LIMITATION.—Loans made under subsection (a) shall not, unless otherwise specified by law, exceed an amount equal to 10 percent of the total amount of insured loans under the Rural Electrification Act of 1936 authorized during the fiscal year in which such loan is made for rural electrification and telephone purposes, or $40,000,000, whichever is less. Such limitations shall be in addition to the total amount of insured loans authorized for electrification and telephone purposes.*

*(c) PRIORITY—In reviewing applications for loans under this section the Secretary shall consider—*

*(1) whether the loan is necessary to enable the communities to be served to comply with applicable Federal or State environmental laws;*

*(2) whether the individuals residing in the area for which service is proposed, and any local government entities, are in favor of the borrower providing such services in the area;*

*(3) the income, unemployment, and other characteristics of the area to be served;*

*(4) the degree of deprivation faced by residents of the area to be served as a result of the lack of safe drinking water, adequate water supplies, sewage treatment and other waste disposal facilities;*

*(5) the impact that the availability of safe water supplies, waste disposal and similar services would be likely to have on enhancing the prospects for economic growth within the area to be served;*

*(6) the degree to which a loan that may be provided under this subsection is necessary to ensure that water and waste disposal services are available in the area to be served by such loan at costs that do not exceed those charged in other nearby areas;*

*(7) the impact of the proposed loan on the retention of the property and service territory of the borrower, or in protecting the security given on outstanding loans provided to the borrower; and*

*(8) whether the water and waste facility projects described in the application will duplicate any existing facilities, and whether the borrower will coordinate its water and waste facility operations with similar operations in the area, including efforts to achieve economies of scale through joint billing, collection or other operations with nearby systems in order to reduce the costs, improve the operations, or otherwise assist such systems.*

*(d) COORDINATION.—*

*(1) OTHER PROGRAMS AND REQUIREMENTS.—*

*(A) OTHER PROGRAMS.—The Secretary shall ensure that the program established under this section is coordinated with the programs authorized and established under section 306, and will attempt to coordinate the lending activities under this section with similar activities conducted by other entities.*

*(B) REQUIREMENTS.—Loans made under this section shall be subject, in the same manner as loans made under section 306, to the provisions of section 306(a)(9) and 306(a)(10) (which require approvals by State water pollution control agencies), sections 306(a)(19) (A) and (B), (which include certain requirements in connection with the technical design and choice of materials for water and waste systems), and section 306(b) (which concerns the curtailment or limitation of service).*

*(2) ASSIGNMENT OF DUTIES.—The Secretary shall determine whether the Rural Electrification Administration possesses greater expertise, as compared with the Farmers Home Administration, in the areas of utility accounting, utility management and financial analysis, advice and assistance, and other aspects of utility operations and engineering. If the Secretary determines that the Rural Electrification Administration possesses greater expertise in such areas, the Secretary shall require the Rural Electrification Administration to provide technical assistance, and assist in the processing of applications under this section.*

*(3) PROHIBITION ON LIMITING ACCESS.—The Secretary shall establish rules and procedures that prohibit borrowers from conditioning or limiting access to, or the use of, any water and waste facility services that are financed under this section. Such rules and procedures shall be based on whether individuals or entities in the area for which such facility is proposed receive, or will accept, electric service from such borrower.*

*(e) TERMS.—*

*(1) IN GENERAL.—Loans made under this section shall be for the same repayment period as insured loans made by the Administrator of the Rural Electrification Administration to such borrowers under title III of the Rural Electrification Act of 1936 (7 U.S.C. 930 et seq.) and interest rates on loans made under this section shall not exceed the 5 percent interest rate on*

*such insured loans as described in section 305 of the Rural Electrification Act of 1936 (7 U.S.C. 935).*

*(2) INTEREST RATE.—The Secretary shall determine the interest rate to be charged on loans made under this section on the basis of—*

*(A) ensuring that the cost to consumers for water and waste disposal services financed with loans provided under this section does not, to the extent possible, exceed rates charged in areas that are near the area served by the borrower;*

*(B) the income and other characteristics of the individuals to be served through the provision of such loans; and*

*(C) encouraging borrowers to obtain private sector capital, as provided for in subsection (f), to supplement loans made under this section.*

*(f) PRIVATE SECTOR CAPITAL.—The Secretary shall require borrowers under this section to obtain private sector capital to supplement assistance made available under this section if—*

*(1) The Secretary determines that—*

*(A) it is appropriate to require use of such private capital, taking into account subparagraphs (A) and (B) of subsection (e)(2); and*

*(B) the borrower is able to obtain revenues from the facilities to be financed to recover its cost, including the cost of such private capital; and*

*(2) the borrower is able to obtain such private sector capital. In order to facilitate the obtaining of such private capital, the Secretary may, on a case by case basis, reduce the interest rate on loans provided under this section when such reduction is appropriate and will enable the borrower to obtain such private capital.*

*(g) APPROPRIATIONS.—The Secretary is authorized to make loans to the extent amounts are appropriated as provided under this section, except that during any fiscal year the amount of such loans, unless otherwise provided by law, shall not exceed 10 percent of the amount authorized for all insured loans under title III of the Rural Electrification Act of 1936 (7 U.S.C. 930 et seq.), or $40,000,000, whichever amount is less. Funds appropriated under this section shall remain available until expended.*

*(h) REPAYMENT.—Appropriations made for purposes of this section shall be placed in a separate account. Advances on loans made under this section shall be made from such account, and payments on such loans shall be returned to the account for use by the account in making advances on future loans.*

*(i) FULL USE.—The Secretary shall undertake all reasonable efforts to make full use, during each fiscal year, of any funds held by the account established under subsection (h), subject to limitations that loans for the purpose of this section shall not exceed 10 percent of the amount of loans made under title III of the Rural Electrification Act of 1936 (7 U.S.C. 930 et seq.) during any fiscal year, or $40,000,000, whichever amount is less, and subject to any other limitations that may be imposed by law, except that any repayments made during each fiscal year shall not be considered in computing such 10 percent or $40,000,000 limit.*

*(j) REPLENISHMENT OF WATER AND WASTE FACILITY FUND.—*

*(1) CALCULATION OF TOTAL AMOUNT OF LOANS.—At the end of each fiscal year the Secretary shall calculate—*

*(A) the total amount of loans extended under this section during such fiscal year; and*

*(B) the amount of water or waste facility loans extended to borrowers under section 306 of this Act and under the Rural Electrification Act of 1936.*

*(2) TRANSFER OF AMOUNTS.—Notwithstanding the provisions of subsections (g) and (i), if any amounts appropriated under this section remain available at the end of any fiscal year, the Secretary shall transfer such available amounts to the fund used to make water or waste facility loans under section 306, to the extent of the amount of any loans made to borrowers under the Rural Electrification Act of 1936, under such section 306 and any such loan to such borrower made under section 306 shall be subject to the terms, conditions, and other requirements of section 306A and any such section 306 loan shall be repaid to the account established by subsection (h).*

***SEC. 306B. EMERGENCY COMMUNITY WATER ASSISTANCE GRANT PROGRAM.***

*(a) IN GENERAL.—The Secretary shall provide grants in accordance with this section to assist the residents of rural areas and small communities to secure adequate quantities of safe water—*

*(1) after a significant decline in the quantity or quality of water available from the water supplies of such rural areas and small communities; or*

*(2) when repairs, partial replacement, or significant maintenance efforts on established water systems would remedy an acute shortage of quality water or would remedy a significant decline in the quantity or quality of water that is available.*

*(b) PRIORITY.—In carrying out subsection (a), the Secretary shall give priority to projects described in subsection (a)(1), and provide at least 70 percent of all such grants to such projects.*

*(c) ELIGIBILITY.—To be eligible to obtain a grant under this section, an applicant shall—*

*(1) be a public or private non-profit entity; and*

*(2) in the case of a grant made under subsection (a)(1), demonstrate to the Secretary that the decline referred to in such subsection occurred within 2 years of the date the application was filed for such grant.*

*(d) USES.—*

*(1) IN GENERAL.—Grants made under this section may be used for water line extensions from existing systems, laying of new water lines, repairs, significant maintenance, digging of new wells, equipment replacement, hook and tap fees, and any other appropriate purpose associated with developing sources of, or treating, storing, or distributing water, and to assist communities in complying with the requirements of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) or the Safe Drinking Water Act (42 U.S.C. 300f et seq.).*

*(2) JOINT PROPOSALS.—Nothing in this section shall preclude rural communities from submitting joint proposals for emergency water assistance, subject to the restrictions contained in sub-*

*section (e). Such restrictions should be considered in the aggregate, depending on the number of communities involved.*

*(e) RESTRICTIONS.—No grant provided under this section shall be used to assist any rural area or community that—*

*(1) includes any area in any city or town with a population in excess of 5,000 inhabitants according to the most recent decennial census of the United States; or*

*(2) has a median household income in excess of the State nonmetropolitan median household income according to the most recent decennial census of the United States.*

*Not less than 75 percent of the funds allocated under this section shall be allocated to rural communities with populations that do not exceed 3,000 inhabitants.*

*(f) MAXIMUM GRANTS.—Grants made under this section may not exceed—*

*(1) in the case of each grant made under subsection (a)(1), $500,000; and*

*(2) in the case of each grant made under subsection (a)(2), $75,000.*

*(g) FULL FUNDING.—Subject to subsection (e), grants under this section shall be made in an amount equal to 100 percent of the costs of the projects conducted under this section.*

*(h) APPLICATION.—The Secretary shall develop a nationally competitive application process to award grants under this section. Such process shall include criteria for evaluating applications, including population, median household income, and the severity of the decline in quantity or quality of water. The Secretary shall make every effort to review and act on applications within 60 days of the date that such applications are submitted.*

*(i) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section, $35,000,000 for fiscal year 1990, and $10,000,000 for fiscal year 1991, such sums to remain authorized until fully appropriated.*

SEC. 307.

(a)(1) * * *

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(3)(A) Except as provided in paragraph (6), the interest rates on loans (other than guaranteed loans), to public bodies or nonprofit associations (including Indian tribes on Federal and State reservations and other federally recognized Indian tribal groups) for water and waste disposal facilities and essential community facilities shall be set by the Secretary at rates not to exceed the current market yield for outstanding municipal obligations with remaining periods to maturity comparable to the average maturity for such loans, and adjusted to the nearest one-eighth of 1 per centum; and not in excess of 5 per centum per annum for any such loans which are for the upgrading of existing facilities or construction of new facilities as required to meet applicable health or sanitary standards in areas where the median household income of the persons to be served by such facility is below the higher of 80 per centum of the statewide nonmetropolitan median household income or the poverty line established by the Office of Management and Budget, as adjusted under section 624 of the Economic Opportunity Act of

1964 (42 U.S.C. 2971d) and in other areas as the Secretary may designate where a significant percentage of the persons to be served by such facilities are of low income, as determined by the Secretary; and not in excess of 7 per centum per annum on loans for such facilities that do not qualify for the 5 per centum per annum interest rate but are located in areas where the median household income of the persons to be served by the facility does not exceed 100 per centum of the statewide nonmetropolitan median household income.

(B) Except as provided in paragraph (6), the interest rates on loans (other than guaranteed loans) under section 310D of this title shall be as determined by the Secretary, but not in excess of one-half of the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans, nor less than 5 per centum per annum.

*(C) Notwithstanding the provisions of subparagraph (A), the Secretary shall establish loan rates for health care and related facilities that shall be based solely on the income of the area to be served, and such rates shall be otherwise consistent with the provisions of such subparagraph.*

* * * * * * *

SEC. 333A.

(a)(1) The Secretary shall approve or disapprove an application for a loan or loan guarantee made under this chapter, and notify the applicant of such action, not later than 60 days after the Secretary has received a complete application for such loan or loan guarantee.

(2) If an application for a loan or loan guarantee under this chapter is incomplete, the Secretary shall inform the applicant of the reasons such application is incomplete not later than 20 days after the Secretary has received such application.

(3) If an application for a loan or loan guarantee under this chapter is disapproved by the Secretary, the Secretary shall state the reasons for the disapproval in the notice required under paragraph (1).

*(4) Notwithstanding paragraph (1), each application for a loan or loan guarantee under section 310B(a) that is to be disapproved by the Secretary solely because the Secretary lacks the necessary amount of funds to make such loan or guarantee shall not be disapproved but shall be placed in pending status. The Secretary shall retain such pending application and reconsider such application beginning on the date that sufficient funds become available. Not later than 60 days after funds become available regarding each pending application, the Secretary shall notify the applicant of the approval or disapproval of funding for the application.*

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# TITLE V—RURAL DEVELOPMENT AND SMALL FARM RESEARCH AND EDUCATION

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SEC. 502. PROGRAMS AUTHORIZED

The Secretary of Agriculture may conduct, in cooperation and coordination with colleges and universities, the following programs to carry out the purposes and achieve the goals of this subchapter.

(a) * * *

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*(g) RURAL ECONOMIC AND BUSINESS DEVELOPMENT.—*

*(1) IN GENERAL.—The Secretary shall establish an Extension Service rural economic and business development program to enable States or counties to employ specialists as Cooperative Extension Service staff of the State or county to assist individuals in creating new businesses, including cooperatives, or to assist existing businesses, and to assist such businesses regarding advanced telecommunications, computer technologies, technical or management assistance, business and financial planning, and other related matters, and to assist community leaders in community economic analysis and strategic planning.*

*(2) FUNCTION OF SPECIALISTS.—Specialists employed under paragraph (1) shall provide economic development information and assistance concerning new business creation, business planning and advice, advanced telecommunications, business management, computer operations, and other technical assistance to community leaders and private sector entrepreneurs and cooperatives operating in the State or county that employs such specialists.*

*(3) PROCEDURES AND LIMITATIONS.—The Secretary shall establish policies, procedures and limitations that shall apply to States and counties that desire to participate in the program established under this subsection. States and counties shall determine the types of rural economic and business development specialists that are needed by such States and counties. In States with land-grant colleges and universities eligible to receive funds under the Act of July 2, 1862 (7 U.S.C. 301 et seq.), and the Act of August 30, 1890 (7 U.S.C. 321 et seq.), including Tuskegee University, such eligible institutions shall mutually determine the types of rural economic and business development specialists needed.*

*(4) PAYMENT OF SALARY.—The Secretary shall make grants to States and counties that participate in the program established under this section in an amount equal to 60 percent of the total amount of the salary paid to any specialists employed under such program, and the State or county shall provide funds for the remaining 40 percent of such salary. Land-grant colleges and universities eligible to receive funds under the Act of August 30, 1890 (7 U.S.C. 321 et seq.), including Tuskegee Uni-*

*versity, shall be exempt from the 40 percent salary matching requirement.*

*(5) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $5,000,000 in fiscal year 1990, $10,000,000 in fiscal year 1991, $15,000,000 in fiscal year 1992, and $20,000,000 in fiscal year 1993 and each subsequent fiscal year, to carry out this section. Amounts appropriated under this section shall remain available until expended.*

*(h) RESEARCH GRANTS.—*

*(1) IN GENERAL.—In addition to the programs already conducted under this section, the Secretary shall also establish and carry out a program to award competitive research grants to land-grant colleges and universities, research foundations and centers established by land-grant universities, State agricultural experiment stations, and to all colleges and universities having demonstrable capability in rural development research, as determined by the Secretary, to carry out research to improve economic competitiveness and diversification, support strategic planning for economic investments, improve human resources, and improve the data base for rural development decisionmaking in rural areas.*

*(2) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $2,000,000 in each fiscal year to carry out this subsection. Amounts appropriated under this subsection shall remain available until expended.*

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***SEC. 509. NEED AND AVAILABILITY OF RURAL DEVELOPMENT ASSISTANCE.***

*(a) ESTABLISHMENT OF PROGRAM.—Not later than 180 days after the date of enactment of this section, the Secretary shall establish a program to study economically distressed counties in a variety of States that have high concentrations of nonmetropolitan counties with low per capita income or nonmetropolitan counties experiencing high rates of outmigration.*

*(b) EVALUATION.—When conducting a study of counties under subsection (a), the Secretary shall evaluate the need of such counties for rural development assistance, the nature of the assistance needed, and the availability of such assistance.*

*(c) REPORT.—Not later than September 30, of each of the fiscal years 1990 through 1993, the Secretary shall prepare and submit, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report that contains the results of the studies and evaluations conducted under this section and on any action taken by the Secretary to improve economic conditions in rural counties.*

*(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary to carry out this section.*

***SEC. 510. RURAL DEVELOPMENT ASSISTANCE INFORMATION.***

*(a) ESTABLISHMENT OF PROGRAM.—The Secretary shall establish a program, to be operated in conjunction with the National Rural Information Center Clearinghouse established within the National Agricultural Library, to provide information to local rural comuni-*

*ties, nonmetropolitan counties, and rural areas concerning rural development matters and the availability of Federal rural development assistance.*

*(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary to carry out this section.*

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# UNITED STATES CODE

# TITLE 16—CONSERVATION

## CHAPTER 36—FOREST AND RANGELAND RENEWABLE RESOURCES PLANNING

### Subchapter I—Planning

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**§ 1606a. Reforestation Trust Fund**

(a) ESTABLISHMENT; SOURCE OF FUNDS.—There is established in the Treasury of the United States a trust fund, to be known as the Reforestation Trust Fund (hereinafter in this section referred to as the "Trust Fund"), consisting of such amounts as are transferred to the Trust Fund under subsection (b)(1) of this section and any interest earned on investment of amounts in the Trust Fund under subsection (c)(2) of this section.

(b) TRANSFER OF CERTAIN SCHEDULE 2 TARIFF RECEIPTS TO TRUST FUND; FISCAL YEAR LIMITATION; QUARTERLY TRANSFERS; ADJUSTMENT OF ESTIMATES.—(1) Subject to the limitation in paragraph (2), the Secretary of the Treasury shall transfer to the Trust Fund an amount equal to the sum of the tariffs received in the Treasury after September 30, 1979, under subparts A and B of part 1 of schedule 2 of the Tariff Schedules of the United States (19 U.S.C. 1202) and under part 3 of such schedule.

(2) The Secretary shall not transfer more than [$30,000,000] *$40,000,000, (of which $10,000,000, shall be subject to subsection (e))* to the Trust Fund for any fiscal year.

(3) The amounts required to be transferred to the Trust Fund under paragraph (1) shall be transferred at least quarterly from the general fund of the Treasury to the Trust Fund on the basis of estimates made by the Secretary of the Treasury. Proper adjustment shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

(c) REPORT TO CONGRESS; PRINTING AS HOUSE AND SENATE DOCUMENT; INVESTMENTS; SALE AND REDEMPTION OF OBLIGATIONS; CREDITS FOR TRUST FUND.—(1) It shall be the duty of the Secretary of the Treasury to hold the Trust Fund, and (after consultation with the Secretary of Agriculture) to report to the Congress each year on the financial condition and the results of the operations of the Trust Fund during the preceding fiscal year and on its expected condition and operations during the next fiscal year. Such report

shall be printed as both a House and Senate document of the session of the Congress to which the report is made.

(2)(A) It shall be the duty of the Secretary of the Treasury to invest such portion of the Trust Fund as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose, such obligations may be acquired (i) on original issue at the issue price, or (ii) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under chapter 31 of Title 31 are hereby extended to authorize the issuance at par of special obligations exclusively to the Trust Fund. Such special obligations shall bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt; except that where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest of such special obligations shall be the multiple of one-eighth of 1 percent next lower than such average rate. Such special obligations shall be issued only if the Secretary of the Treasury determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest.

(B) Any obligation acquired by the Trust Fund (except special obligations issued exclusively to the Trust Fund) may be sold by the Secretary of the Treasury at the market price, and such special obligations may be redeemed at par plus accrued interest.

(C) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Trust Fund shall be credited to and form a part of the Trust Fund.

(d) EXPENDITURES FROM TRUST FUND.—During each of the fiscal years 1983, 1984, and 1985, the Secretary of Agriculture shall expend all amounts available in the Trust Fund (including any amounts not expended in previous fiscal years) for—

(1) reforestation and timber stand improvement as set forth in the Congressional policy in section 1601(d) of this title; [and]

*(2) economic diversification assistance to communities which are dependent to a significant degree upon Forest Service resource management decisions for their local economic activity; and*

[(2)] *(3)* administrative costs of the Federal Government properly allocatable to the activities described in paragraph (1).

In no event may the Secretary expend less than $104,000,000 out of the Trust Fund in fiscal year 1983 for the purposes of this subsection.

*(e) In each fiscal year $10,000,000 of the amounts transferred to the Trust Fund by the Secretary under subsection (b)(2) shall be expended for purposes described in subsection (d)(2) and any such*

*amount shall be available only as provided for in annual appropriations Acts.*

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OFFICE OF FEDERAL PROCUREMENT POLICY ACT

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**SEC. 24. TRAVEL EXPENSES OF GOVERNMENT CONTRACTORS.**

Under any contract with any executive agency, costs incurred by contractor personnel for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered to be reasonable and allowable only to the extent that they do not exceed the rates and amounts set by subchapter I of chapter 57 of Title 5, United States Code, or by the Administrator of General Services or the President (or his designee) pursuant to any provision of such subchapter. This section shall be implemented in regulations prescribed as a part of the single system of Government-wide procurement regulations as defined in section 4 of this title.

***SEC. 25. PRIORITY FOR RURAL AREAS IN CERTAIN CONSTRUCTION PROJECTS.***

*(a) IN GENERAL—Under regulations prescribed by the Administrator, the head of each executive agency shall, each fiscal year, in determining the location of new Federal buildings and related construction activities, give equal consideration to rural areas.*

*(b) APPLICATION.—Subsection (a) shall apply without regard to any other provision of law.*

*(c) DEFINITION.—As used in this section, the term "rural area" means an area described and approved under section 101(6) of the Rural Partnerships Act of 1989.*

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